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Project **IFRS 8 *Operating Segments***

Topic **Determination of Scope**

Introduction

1. In August and November 2009, the staff received separate requests from the same constituent for the Board to consider issues related to the scope of IFRS 8 *Operating Segments*. Both submissions request clarification of the applicability of IFRS 8 to entities that issue debt or equity instruments to the public, but those instruments are not traded on a 'public market'.
2. The submissions request the Board address these issues as part of the *Annual Improvements* project (AIP). However, given the recent changes to AIP and the IFRIC's involvement, these issues are being first presented for deliberation by the IFRIC.
3. The purpose of this Agenda Paper includes:
 - (a) [Background](#) of the issues;
 - (b) [Staff analysis and recommendations](#); and
 - (c) [Questions for the IFRIC](#).

Background

The issues submitted

4. The staff received two requests from the same constituent. Both issues relate to IFRS 8, more specifically:

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in IFRIC *Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in IASB *Update*.

- (a) Issue 1 – clarification of ‘**public market**’ (included in the [second submission dated 10 November 2009](#))
 - (b) Issue 2 – **determination of when** a reporting entity falls within the scope of IFRS 8, specifically the criteria of ‘filing or in the process of filing’ (included in the [first submission dated 27 August 2009](#))
5. The submissions are included in [Appendix A](#) without modification for reference (except for removal of submitter specific information).

Relevant literature

6. Paragraph 2 of IFRS 8 specifies its scope as applying to the financial statements of a reporting entity whose debt or equity instruments are or will be traded in a ‘public market’:
- 2 This IFRS shall apply to:
 - (a) the separate or individual financial statements of an entity:
 - (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, its 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 a group 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.

Staff Analysis and Recommendations

Issue 1 – Meaning of ‘Public market’

General information

7. The staff notes that the phrase ‘public market’ is not a formally defined term within IFRSs (i.e. not included in the *Glossary of Terms*); however, paragraphs 2(a)(i) and 2(b)(i) of IFRS 8 provide additional clarifying guidance. In the context of IFRS 8, public market is ‘a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets’.
8. Additionally, the Basis for Conclusions on IFRS 8 includes paragraphs BC18–BC23 on ‘Scope of the standard’. Paragraphs BC18–BC20 provide insight into the Board’s conclusions for the submitted issue:
 - BC18 In ED 8, the Board proposed extending the scope of the IFRS to all entities that have public accountability rather than just entities whose securities are publicly traded. The Board noted that it was premature to adopt the proposed definition of public accountability that is being considered in a separate Board project on small and medium-sized entities (SMEs). However, the Board decided that the scope of the standard should be extended to include entities that hold assets in a fiduciary capacity for a broad group of outsiders. The Board concluded that the SMEs project is the most appropriate context in which to decide whether to extend the scope of the requirements on segment reporting to other entities.
 - BC19 Some respondents to ED 8 commented that the scope of the IFRS should not be extended until the Board has reached a conclusion on the definitions of ‘fiduciary capacity’ and ‘public accountability’ in the SMEs project. They argued that the terms needed clarification and definition.
 - BC20 The Board accepted these concerns and decided that the IFRS should not apply to entities that hold assets in a fiduciary capacity. However, the Board decided that publicly accountable entities should be within the scope of the IFRS, and that a future amendment of the scope of the IFRS should be proposed to include publicly accountable entities once the definition has been properly developed in the SMEs project. The proposed amendment will therefore be exposed at the same time as the exposure draft of the proposed IFRS for SMEs.
9. Finally, paragraph 1 of IFRS 8 provides the core principle:

1 An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

Submitter views and recommendations

10. The submitter ‘consider[s] that this core principle applies to every entity that is an issuer of securities to the public, regardless of whether their securities are traded and/ or issued in a public market or not.’
11. The submitter believes the core principle is not fully achieved through the current reference to and informal definition of ‘public market’. For example, ‘the securities issued by finance companies (non-banking deposit takers) and managed funds are generally not so traded.’ Therefore, these entities are not currently required to provide the disclosures required by IFRS 8.
12. The submitter believes that ‘...[t]o limit such an important disclosure to just those entities whose securities are traded and/ or issued in a public market is, in our view, overly restrictive and will result in non-disclosure of information and in non-comparable information between different users. We believe IFRS 8 should capture all issuers of securities to the public.’
13. Through additional correspondence with the submitter, the staff received additional clarification of the submitter’s reference to ‘public issuer’. The submitter stated, in part:

...a public issuer is a reference to an entity that makes an offer to the public in order to solicit funds. This may be an offer of equity, debt or participatory securities. In addition, in [jurisdiction], an entity that offers units in a unit trust, a life insurance policy, an interest in a superannuation scheme or an interest in a contributory mortgage scheme is also considered, by law, to be a public issuer as it also make offers to the public/solicits funds from the public for subscription to those securities... It is not intended to refer to private offerings where the offer is not made to the public in general.

...

In [jurisdiction], the public issuers that would not be captured by the scope of IFRS 8 would include all the unlisted deposit-taking institutions (including banks, and finance companies) and unlisted managed funds (including property syndicates, life insurance companies, unit trusts, superannuation schemes, contributory mortgage schemes). As we have stated in our previous

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correspondence, as a large proportion of [jurisdiction] public issuers are not traded in a “public market”, they will not be required to disclose information on their operating segments. We do not consider this to be appropriate from the perspective of the information needs of investors and from the perspective of the disclosure of comparable information with other public issuers.

14. The submitter suggests that the words in paragraph 2 of IFRS 8 ‘in the public market’ should be changed to ‘to the public’. The specific suggestions are referenced only to paragraphs 2(a)(ii) and 2(b)(ii). The submission does not reference to the related paragraphs 2(a)(i) and 2(b)(i), but in the staff’s opinion, the appropriateness of recommending changes to some, but not other sections of paragraph 2 is an item of clarification to be deliberated at later date and is not the focus of this paper.
15. As an alternative, the submitter noted ‘the IASB could consider including, as part of the scope of IFRS 8, text along the lines of paragraph 1.3(b) of the definition of “public accountability” from its IFRS for SMEs.’ Further, the submitter considers that the definition of ‘public accountability’ would likely encompass most deposit-taking institutions, however, the submitter ‘think[s] that it would be preferable to explicitly require all deposit taking institutions to fall within the scope of IFRS 8’.

Staff views

16. In the staff’s opinion, there are several points that should be considered:
 - (a) Is the current phrase ‘public market’ understood and consistently applied? Does ‘non-comparable information between different users’ exist and if so, why?
 - (b) Should the scope be expanded to include all entities that issue debt or equity instruments ‘to the public’?
 - (c) How would ‘to the public’ be defined? What entities, if any, would remain outside the scope of IFRS 8? Does this effectively require all general purpose financial statements prepared in accordance with IFRSs to comply with the requirements in IFRS 8?
 - (d) How should any/ all of the above questions be addressed?

17. The staff has performed outreach activities through discussions with large international accounting firms and members of the Group of National Standard Setters. The responses received broadly suggest a lack of diversity in current practice with respect to application of the phrase ‘public market’. Selected comments received include:

- (a) the key to the scope is existence of a secondary market. That is, an offer to the public is not sufficient to create a ‘public market’, rather it’s the ability of the public to trade subsequently that creates the ‘public market’.
- (b) a restricted offer or an offer made to ‘sophisticated investors’ or ‘seasoned investors’ is not issued in a ‘public market’.
- (c) the scope of IAS 33 *Earnings per Share* is the same as the scope of IFRS 8, but we are not hearing any concerns that people are confused about IAS 33.
- (d) a fund manager that redeems trust units could be regarded as operating an OTC market, but could also be considered different from a trading facility if the manager is not acting purely as a facilitator. The latter view may have some merit.
- (e) the EU includes requirements to apply IFRSs if, at their balance sheet date, their financial instruments are admitted to trading on a regulated market of any Member State of the EU (EU-regulation No. 1606/2002). Given that ‘regulated market’ per EU regulations is defined narrower than ‘public market’ per IFRS 8, all EU entities applying IFRSs (as a result of the above regulation) are by definition scoped into IFRS 8. Therefore, this issue is not very common in our jurisdiction.
- (f) the first limb of the scope catches entities that are already trading in a public market and the second limb catches those that are planning to trade.

18. The staff does acknowledge that simply as a result of being within vs outside of the scope of IFRS 8 that some entities will be required to disclose information related to their operating segments and other entities will not be required to

disclose that information. However, in the staff's opinion, the current scope of IFRS 8 does not create 'non-comparable information between different users' in a manner that information is presented for users of both but, that information is prepared/ presented in a different manner.

19. The staff also point out that an entity is never precluded from providing additional information to allow users of those financial statements to evaluate the entity's performance during the period. Additionally, paragraph 4 of IFRS 8 provides explicit guidance for circumstances when an entity that is not required to apply IFRS 8 chooses to disclose information about segments that does not comply with IFRS 8. Finally, to the extent individual regulators or other outside parties wish to request the reporting entity to provide additional information beyond the minimum requirements included within IFRSs (to the extent the information is not in conflict with the current *Framework* or current other IFRSs), that regulator or other outside party is not precluded from making that request.
20. Regarding a potential change in the scope of IFRS 8, the staff refers to paragraphs BC18–BC20 of IFRS 8 that summarises the Board's preliminary views. However, these paragraphs also specify that the preliminary views should not be finalised at the time of issue of IFRS 8, but rather that 'a future amendment of the scope of the IFRS should be proposed to include publicly accountable entities once the definition has been properly developed in the SMEs project. The proposed amendment will therefore be exposed at the same time as the exposure draft of the proposed IFRS for SMEs.' (emphasis added)
21. In the staff's opinion, additional research and analysis of the preliminary view of expanding the scope of IFRS 8 would need to be performed as part of such a project. One of the considerations of such a project would need to be the effect of a potential amendment on convergence efforts in this area given that BC 2 of IFRS 8 specifies that the overall project that created IFRS 8 was conducted jointly with the FASB. To date, this research and analysis has not been performed.
22. In the staff's opinion, a potential change increasing the scope of IFRS 8 to be applicable to all entities that issue debt or equity instruments 'to the public'

(whether or not currently or planned to trade in the future on a ‘public market’) has broader implications than is envisaged within the *Annual Improvements* project.

Issue 2 – ‘When’ are the requirements of IFRS 8 applicable

Submitter views and recommendations

23. The submitted issue dated 27 August 2009 relates to a clarification of determining ‘when’ an entity is within the scope of IFRS 8. In the staff’s opinion, this Issue 2 is closely linked to [Issue 1](#) previously analysed in this paper; however, this section of this paper will attempt to segregate and analyse only the impact of Issue 2.
24. The staff received additional clarification of the question about ‘when’ IFRS 8 applies through additional correspondence with the submitter stating, in part:

The proposed change in our letter of 27 August 2009 is a very limited change as it relates to when an entity in [jurisdiction] that trades in a “public market” (as defined in IFRS 8) files its financial statements – under [jurisdiction] law, it does so after issuing securities. The intent of the proposed change is to ensure that an issuer that has not commenced business when issuing securities and therefore does not file financial statements when issuing securities will be required to comply with IFRS 8 subsequent to the issue of securities.

25. The submission dated 10 November 2009 states, in part:

9. However, our preference is for the amendment to be made to paragraphs 2(a)(ii) and 2(b)(ii) in the first instance.

Request to IASB

10. Accordingly, we request that the IASB consider the following minor amendment to paragraphs 2(a)(ii) and 2(b)(ii) of IFRS 8 such that paragraphs 2(a)(ii) and 2(b)(ii) read respectively as follows, taking into account of our suggested wording from this letter and that of the 27 August 2009:

“2(a) ... (ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of or as a result of issuing any class of instruments in a public market; and”

“2(b) ... (ii) that files, or is in the process of filing, the consolidated financial statements with a securities

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commission or other regulatory organisation for the purpose of or as a result of issuing any class of instruments in a public market.”

Staff views

26. In the staff’s opinion, paragraph 2 of IFRS 8 provides ‘two limbs’ (to use the terminology included in the submissions):
- (a) The **first limb** captures entities ‘whose debt or equity instruments are traded in a public market...’ [Not the focus of Issue 2.]
 - (b) The **second limb** captures entities that do not yet have debt or equity instruments that have been issued (and are trading in a public market). Rather, the second limb captures those reporting entities ‘that files [presently], or is in the process of filing, its/ 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.’ (emphasis added)
27. Issue 2 only relates to the second limb and its interaction with regulatory filing requirements in circumstances where financial statements are required to be ‘filed’ only after the entity’s debt or equity instruments are issued in a public offering (that is not made in a ‘public market’).
28. The staff believe the submitter’s view to be that in circumstances where the entity is only required to file financial statements with a regulator after issuing debt or equity instruments in a public market that entity does not have to provide IFRS 8 disclosures. The staff disagrees with the submitter’s view (as understood by the staff).
29. In the staff’s opinion, the second limb (i.e. paragraphs 2(a)(ii) and 2(b(ii)) is ‘triggered’ and become applicable based on management’s intent to file. The applicability of the second limb is not dependant upon the timing regulatory filing requirements.
30. In the staff’s opinion, if decisions are taken on Issue 1 to amend the current phrase ‘public market’ to ‘to the public’, then Issue 2 will also be resolved. In the staff’s opinion, if the ‘first limb’ is amended to apply to any debt or equity

instruments issued ‘to the public’ then Issue 2 will be addressed by the ‘first limb’.

31. Alternatively, in the staff’s opinion, if the decisions taken on Issue 1 of this paper result in no proposed amendment to the current phrase ‘public market’, then Issue 2 will not be resolved. Entities that either will in the future or have already issued debt or equity instruments in a public offering (that is not made in a ‘public market’) will never be within the scope of IFRS 8. In the staff’s opinion, the submitter’s recommended change to add ‘or as a result of’ has the effect of broadening the ‘second limb’ to also include everything that is already included in the ‘first limb’. However, in the staff’s opinion, this changes does not achieve the submitter’s objective (as understood by the staff).

Staff recommendation

32. Based on the above analyses of Issues 1 (‘public market’) and 2 (‘when’ do the requirements of IFRS 8 apply), the staff recommends the IFRIC recommend the Board add Issue 1 to its list of potential future projects to be addressed after significant completion of the projects currently included in the Memorandum of Understanding. Additionally, given the recently effective date of IFRS 8 (for annual periods beginning on or after 1 January 2009), the staff recommends this potential project not be actively started until at least late 2011. This will ensure two years of information is available on the application of IFRS 8 and the potential project would be able to also address practical application issues that have arisen.
33. Given the interdependence of Issue 2 with Issue 1, the staff recommends that no additional work be performed separately on Issue 2. Rather, the staff recommends Issue 2 be grouped and reviewed in a consistent manner as the decisions taken to address Issue 1.

Proposed drafting for review by the IFRIC

34. The staff has included draft wording for to be included in the IFRIC Update. The draft wording is set out in [Appendix B](#).

Questions for the IFRIC

35. The staff request the IFRIC to address the following questions:

Question 1 – Potential amendment of ‘Public Market’ not appropriate for AIP

Does the IFRIC agree that a proposed amendment to the phrase ‘public market’ to broaden the applicability of IFRS 8 should not be included in the *Annual Improvements* project?

Question 2 – Recommendation for Board to review ‘public market’ in the future

Does the IFRIC agree with the staff proposal to recommend that the Board add the review of the phrase ‘public market’ to issues to be considered as part of a post implementation review of IFRS 8?

Question 3 – ‘When’ do the requirements of IFRS 8 apply

Does the IFRIC agree with the staff recommendation that no additional work be performed on the request to clarify when the entity that issues debt or equity instruments in a public market becomes subject to the requirements of IFRS 8?

Question 4 – IFRIC Update drafting

Does the IFRIC have any questions or editorial comments regarding the drafting included in [Appendix B](#) of the IFRIC’s recommendation to the Board to be included in the IFRIC Update?

Appendix A – Original Submission

- A1. The two original submissions received by the staff has been included below without modification (except for removal of submitter specific information).
- A2. The **first submission dated 27 August 2009**:

IFRS 8 *Operating segments*

1. We are writing to you to request that the following matter be included in the International Accounting Standards Board's (IASB) next Annual Improvements Process.
2. The matter relates to the scope (paragraph 2) of IFRS 8 *Operating Segments*. The wording of paragraphs 2(a)(ii) and 2(b)(ii) has the unfortunate effect of excluding some public issuers of securities in [jurisdiction] from the scope of IFRS 8 and thus from having to comply with the IFRS. The [jurisdiction] Securities Commission considers this to be inappropriate.
3. The Commission requests the IASB considers a minor amendment to the wording of paragraphs 2(a)(ii) and 2(b)(ii). We think that this can be easily dealt with through the IASB's Annual Improvement Process as we suspect that the consequence of the wording of those paragraphs is unintended. The rewording of paragraphs 2(a)(ii) and 2(b)(ii) will clarify the scope of IFRS 8 and remedy the inconsistency that some public issuers will not be required to apply IFRS 8.
4. We discuss the issue in greater detail in the attached Appendix.
5. If you wish to discuss further any of the matters raised in our submission, please contact [individual], Senior Accountant – Financial Reporting ([email]).

[JURISDICTION] SECURITIES COMMISSION'S REQUEST FOR AN amendment to the scope of IFRS 8 *Operating segments*

Introduction

1. The Securities Commission supports the use of International Financial Reporting standards (IFRS) by public issuers in [jurisdiction]. The Commission has an interest in ensuring that the market receives all material and relevant information from issuers so that market participants are not misled.
2. The Commission considers it important that all issuers of securities to the public are subject to the same financial reporting requirements so that potential and existing investors are able to compare the information between different issuers in making their investment decisions. All issuers should comply fully with IFRS – issuers should not have “differential” reporting requirements.

Issue arising

3. The scope of IFRS 8 (paragraph 2) reads:
- “This IFRS shall apply to:
- (a) the separate or individual financial statements of an entity:
- (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, its 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 a group 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.”
2. The manner in which the scope of IFRS 8 is worded has the unfortunate effect that some public issuers in [jurisdiction] may not be caught by the scope of IFRS 8. The Commission considers it inappropriate that some issuers are permitted to disclose less than full information to the market and disclose information that is not comparable to other issuers.
3. It should be noted that a large proportion of [jurisdiction] public issuers do not issue securities that are traded in a public market. For example, the securities issued by finance companies and managed funds are generally not so traded.
4. However, we believe that the IASB probably intended to capture all issuers of securities to the public. In fact, we consider that the two limbs of paragraph 2 of IFRS 8 taken together will require most issuers to comply with IFRS 8 – issuers that do not fall within the first limb are likely to be caught by the second limb. In particular, continuous issuers of non-traded securities are likely to be caught by the second limb. However, while some issuers of securities are continuous issuers, others are not.
5. As a result, we have a concern with the trigger point for when an entity/group falls within the scope of [jurisdiction] IFRS 8 (and is therefore required to apply the IFRS). The second limb applies when an entity/group “*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*”.
6. The trigger point for an entity to come within the scope of IFRS 8 is the filing of financial statements for the purpose of issuing securities – that is, at the time of the issue of securities.

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7. In [jurisdiction], the legal requirement for filing of financial statements under the Financial Reporting Act 1993 comes after an entity becomes an issuer, that is, files financial statements as a result of an issue of securities.
8. An entity that is already in business must also file financial statements in a prospectus when it offers securities, but this is not the case for a “greenfields” issuer, which has not commenced business prior to making a public offer. This means that an entity that goes public by incorporating a new entity to raise funds to purchase the existing business will never be required to comply with IFRS 8, unless its securities are to be traded on a public market. For example, assume an entity is a new entity that has no financial statements (and therefore is unable to include financial statements) to issue securities to the public. Such an entity will fail the second limb in that it has not filed financial statements for the purpose of issuing the securities. Also assume that the entity fails the first limb (that is, its securities are either not equity or debt securities or are not traded in a public market). As it fails both limbs of paragraph 2, it will not fall within the scope of IFRS 8 and will not be required to apply IFRS 8. This is not only at the time of issuing the securities but thereafter. We think that it is inappropriate for such an issuer to not have to disclose information on its operating segments.
9. We suggest that the words “or as a result of” be added to the second limb of paragraph 2 after the words “for the purpose of” issuing securities.

Request to IASB

10. Accordingly, we request that the IASB consider the following minor amendment to paragraphs 2(a)(ii) and 2(b)(ii) of IFRS 8 such that paragraphs 2(a)(ii) and 2(b)(ii) read respectively as follows:
 - “2(a) ... (ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of or as a result of issuing any class of instruments in a public market; and”
 - “2(b) ... (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 or as a result of issuing any class of instruments in a public market.”
11. We consider that this suggested amendment could be addressed through the IASB’s Annual Improvements Process. We consider that the proposed amendment is small but important. It seeks to clarify the wording of paragraph 2 of IFRS 8 to remedy an unintended inconsistency in the scope of IFRS 8 as it applies to public issuers. While the inconsistency has been raised in the context of [jurisdiction] issuers, we think that it may also affect issuers in other jurisdictions.

A3. The **second submission dated 10 November 2009**:

IFRS 8 *Operating segments*

1. We refer to our letter to you dated 27 August 2009. Subsequent to that letter, it has come to our attention that the scope (paragraph 2) of IFRS 8 *Operating Segments* also has the effect of excluding other public issuers of securities in [jurisdiction] from having to comply with the IFRS.
2. The wording of paragraphs 2(a)(ii) and 2(b)(ii), by its reference to “public market” has the unfortunate effect of excluding certain public issuers of securities in [jurisdiction] from the scope of IFRS 8 and thus from having to comply with the IFRS. The [jurisdiction] Securities Commission considers this to be inappropriate.
3. The Commission requests the International Accounting Standards Board (IASB) to consider an additional amendment to the wording of paragraphs 2(a)(ii) and 2(b)(ii). We think that this can also be easily dealt with through the IASB’s Annual Improvement Process.
4. We discuss the issue in greater detail in the attached Appendix.
5. If you wish to discuss further any of the matters raised in our submission, please contact [person], Senior Accountant – Financial Reporting ([email]).

[JURISDICTION] SECURITIES COMMISSION’S FURTHER REQUEST FOR AN amendment to the scope of IFRS 8 *Operating segments*

Introduction

1. The Securities Commission supports the use of International Financial Reporting Standards (IFRS) by public issuers in [jurisdiction]. The Commission has an interest in ensuring that the market receives all material and relevant information from issuers so that market participants are not misled.
2. The Commission considers it important that all issuers of securities to the public are subject to the same financial reporting requirements so that potential and existing investors are able to compare the information between different issuers in making their investment decisions.

Issue arising

3. The scope of IFRS 8 (paragraph 2) reads:

“This IFRS shall apply to:

(a) the separate or individual financial statements of an entity:

- (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

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- (ii) that files, or is 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; and
 - (b) the consolidated financial statements of a group 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.” (Emphasis added)
2. Paragraphs 2(a)(i) and 2(b)(i) refer to debt or equity instruments that are traded in a “public market”. The words in brackets further explain or “define” the term “public market” to be “a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets”. Paragraphs 2(a)(ii) and 2(b)(ii) refer to filing of financial statements in the context of a “public market”.
 3. The manner in which the scope of IFRS 8 is worded, by reference to a “public market” in the scope is unduly restrictive and has the unfortunate effect that some public issuers in [jurisdiction] would not need to apply IFRS 8. The Commission considers it inappropriate that some issuers are permitted to disclose less than full information to the market and disclose information that is not comparable to other issuers.
 4. As previously advised in our letter of 27 August 2009, a large proportion of [jurisdiction] public issuers do not issue securities that are traded in a “public market” as defined by the scope of IFRS 8. For example, the securities issued by finance companies (non-banking deposit takers) and managed funds are generally not so traded.
 5. We note that the core principle set out in IFRS 8 states:

“An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.” (paragraph 1, IFRS 8)

We consider that this core principle applies to every entity that is an issuer of securities to the public, regardless of whether their securities are traded and/or issued in a public market or not. We note that whether or not an entity trades and/ or issues securities in a public market as defined is not related to its size. For example, a listed issuer could be much smaller than an unlisted issuer and intuitively, we think that segment information might be more important for a larger unlisted issuer to disclose than for a smaller listed issuer. To limit such an important disclosure to just those entities whose securities are traded and/or issued in a public market is, in our view, overly restrictive and will result in non-disclosure of information and in non-

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comparable information between different issuers. We believe that the scope of IFRS 8 should capture all issuers of securities to the public.

6. We suggest that the words “in the public market” in paragraphs 2(a)(ii) and 2(b)(ii) be replaced with the words “to the public”. This is in addition to our suggested wording in our letter of 27 August 2009.
7. Alternatively, the IASB could consider including, as part of the scope of IFRS 8, text along the lines of paragraph 1.3(b) of the definition of “public accountability” from its IFRS for SMEs. This would extend the scope of IFRS 8 to include an entity that:

“... holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks. Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, or cooperative enterprises requiring a nominal membership deposit), they are not considered to be publicly accountable.”

8. We consider that this definition would designate most deposit-taking institutions as having public accountability. To this extent, it will address some of our concerns.
9. However, our preference is for the amendment to be made to paragraphs 2(a)(ii) and 2(b)(ii) in the first instance.

Request to IASB

10. Accordingly, we request that the IASB consider the following minor amendment to paragraphs 2(a)(ii) and 2(b)(ii) of IFRS 8 such that paragraphs 2(a)(ii) and 2(b)(ii) read respectively as follows, taking into account of our suggested wording from this letter and that of the 27 August 2009:

“2(a) ... (ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of or as a result of issuing any class of instruments in a public market to the public; and”

“2(b) ... (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 or as a result of issuing any class of instruments in a public market to the public.”

11. We consider that this suggested amendment could be addressed through the IASB’s Annual Improvements Process. We consider that the proposed additional amendment is important. It seeks to clarify the wording of paragraph 2 of IFRS 8 to remedy an inconsistency in the scope of IFRS 8 as it applies to public issuers. While the inconsistency has been raised in the

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context of [jurisdiction] issuers, we think that it may also affect issuers in other jurisdictions.

Appendix B – Drafting for IFRIC Update

B1. The staff proposes the following draft wording for the IFRIC Update.

IFRS 8 *Operating Segments* – Determination of Scope

The Board received two requests for proposed amendments to the scope of IFRS 8 *Operating Segments*. The requests propose to expand the scope of IFRS 8 to require segment disclosures for all entities that issue debt or equity instruments to the public (whether or not in a 'public market'). The scope expansion proposed in the request would have the effect of requiring the following types of entities to provide segment disclosures: all unlisted deposit-taking institutions (including banks, and finance companies) and unlisted managed funds (including property syndicates, life insurance companies, unit trusts, superannuation schemes, contributory mortgage schemes).

The IFRIC decided to recommend that the Board include a review of the phrase 'public market' in a future post implementation review of IFRS 8.