Project	**Annual Improvements—2010-2012 cycle**
Topic	**IFRS 8 *Operating Segments*—reconciliation of the reportable segments' assets to the entity's assets**

Purpose of this paper

1. In March 2011 the IFRS Interpretations Committee (the Committee) received a request to clarify in paragraph 28(c) of IFRS 8 *Operating Segments* that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed if that amount is regularly provided to the chief operating decision-maker. The submitter notes that this clarification would make this paragraph consistent with paragraphs 23 and 28(d) in IFRS 8.

2. The submitter suggests that this clarification should be included as part of the annual improvements project (AIP). The submission is reproduced in full in Appendix B to this paper.

3. This paper:

   (a) provides background information on the issue;

   (b) includes the staff recommendation to add this issue as part of the annual improvements project and

   (c) asks the Committee whether they agree with the staff recommendation.

Background information

4. In April 2009, as part of the *Improvements to IFRSs*, the Board amended paragraph 23 of IFRS 8 to clarify that a measure of total assets for each reportable segment should be disclosed only if that amount is regularly provided to the chief operating decision maker. When making this clarification, the Board deleted BC 35 in the Basis for Conclusions of IFRS 8. These paragraphs are shown below [emphasis added]:

> 23 An entity shall report a measure of profit or loss 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: (…)
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> ~~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.~~

5. The Board's decision to make this change was to avoid an unintended difference from practice in the US under SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* (now Topic 280 *Segment Reporting* in the *FASB Accounting Standards Codification*®). Paragraph BC35A provides more insight into the Board's decision for the change, as shown below [emphasis added]:

> BC35A 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 its thinking. **Therefore, the Board amended paragraph 23 by Improvements to IFRSs issued in April 2009 to clarify that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker.**

Staff analysis

6. We observe that paragraph 28(d) clearly indicates that the reconciliation of the total of the reportable segments' liabilities to the entity's liabilities should be provided if segment liabilities are reported in accordance with paragraph 23; that is, if a measurement of total assets and total liabilities for each reportable segment is regularly provided to the chief operating decision-maker. Both paragraphs are reproduced below [emphasis added]:

> 23 An entity shall report a measure of profit or loss 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: (…)
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> 28 An entity shall provide reconciliations of all of the following:
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> (a) the total of the reportable segments' revenues to the entity's revenue.
>
> (b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.
>
> **(c) the total of the reportable segments' assets to the entity's assets.**
>
> **(d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.**
>
> (e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.
>
> All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described.

7. We think that similarly to paragraph 28(d) in IFRS 8, paragraph 28(c) should also clearly indicate that the reconciliation of the total of the reportable segments' assets to the entity's assets should be reported in accordance with paragraph 23. It is our view that this paragraph should originally have been

amended in the same way as paragraph 28(d) and the fact that it was not amended at that time was merely an unintended oversight.

Staff recommendation

8. For the reasons set out in paragraph 6 and 7, we recommend that the Committee should suggest to the Board to amend paragraph 28(c) in IFRS 8 to indicate that the reconciliation of the reportable segment's assets to the entity's assets should be provided if segment assets are reported in accordance with paragraph 23 of IFRS 8. This proposed amendment is shown in Appendix A of this paper.

Assessment against the new annual improvements criteria

9. We have assessed the proposed amendment to paragraph 28(c) against the enhanced annual improvements criteria, which are reproduced in full below:

> In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against the following criteria. All criteria (a)–(d) must be met to qualify for inclusion in annual improvements.
>
> (a) The proposed amendment has one or both of the following characteristics:
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> (i) clarifying–the proposed amendment would improve IFRSs by:
>
> - clarifying unclear wording in existing IFRSs, or
> - providing guidance where an absence of guidance is causing concern.
>
> A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.
>
> (ii) correcting–the proposed amendment would improve IFRSs by:
>
> - resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or.
> - addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.

A correcting amendment does not propose a new principle or a change to an existing principle.

[Staff analysis—this criterion is satisfied. There is a need for clarification of the requirements in paragraph 28(c) regarding the disclosure of the reconciliation of the total of the reportable segments' assets to the entity's assets. We also note that this proposed amendment will improve IFRSs by addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.]

(b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.

[Staff analysis—this criterion is satisfied. The issue is sufficiently narrow to ensure that the proposed change has been considered sufficiently and identified.]

(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.

[Staff analysis—this criterion is satisfied. We think that the Committee will be able to address these issues on a timely basis and thinks that the Board should be in a position to also reach a conclusion on a timely basis. The issue can be sufficiently tackled by clarification of current wording in IFRS 8.28(c) that will provide increased clarity where diversity currently exists, while not significantly affecting the primary accounting treatment that exists in practice for this issue.]

(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.

[Staff analysis—this criterion is satisfied. There is no current IASB project on IFRS 8 even though a post-implementation review is planned for the near future.]

Staff conclusion

10. On the basis of the assessment under the existing annual improvements criteria, we think that the Committee should recommend to the Board that the change proposed to paragraph 28(c) in IFRS 8 (refer to Appendix A of this paper) should be included in the **2010-2012 *annual improvements*** cycle.

Question to the Interpretations Committee

Question 1—Proposed changes to paragraph 28(c) in IFRS 8
Does the IFRIC agree with the staff recommendation in paragraph 8 and the proposed changes in Appendix A?

Appendix A – Proposed changes

A1. The proposed amendment to paragraph 28(c) is presented below.

Amendment to IFRS 8 *Operating Segments*

Paragraph 28(c) is amended (new text is underlined and deleted text is struck through).

Reconciliations

28 An entity shall provide reconciliations of all of the following:

(a) the total of the reportable segments' revenues to the entity's revenue.

(b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.

(c) the total of the reportable segments' assets to the entity's assets <u>if segment assets are reported in accordance with paragraph 23</u>.

(d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.

(e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described.

A2. We are proposing adding the following paragraph to the Basis for Conclusions of IFRS 8:

Basis for Conclusions on proposed amendments to IFRS 8 *Operating Segments*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Reconciliation of segment assets

BC1 The Board received a request to clarify in paragraph 28(c) of IFRS 8 *Operating Segments* that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed only if that amount is regularly provided to the chief operating decision-maker. This clarification would make this paragraph consistent with paragraphs 23 and 28(d) of IFRS 8. The Board agreed with that request and proposes a modification to paragraph 28(c) of IFRS 8 to achieve this.

Appendix B – Request for Annual Improvements

B1 The staff received the following request. All information has been copied without modification, except for details that would identify the submitter of the request and details that are subject to confidentiality.

REQUEST FOR ANNUAL IMPROVEMENTS

The issue:

Firstly, we talked about IFRS 8.28(c) and the requirement to disclose a reconciliation of "the total of the reportable segments' assets to the entity's assets". We wondered whether the words in IFRS 8.28 (d) should be added to this disclosure following the amendment to IFRS 8 to require that a measure of segment assets is disclosed only if it is reported to the CODM. IFRS 8.28 (c) would then read: "the total of the reportable segments' assets to the entity's assets if segment assets are reported in accordance with paragraph 23.