

STAFF PAPER

June 2012

IASB Meeting

Project	Post-implementation review of IFRS 8		
Paper topic	Request for permission to publish a Request for Information		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose

1. You discussed the post-implementation review (PIR) of IFRS 8 *Operating Segments* at the May 2012 Board meeting, at which you tentatively decided that the structure of the investigation and reporting phases should reflect the main decisions made when you developed IFRS 8. You also tentatively decided that the Request for Information (RFI) should follow that structure.
2. The purpose of this paper is to request permission from the Board to publish an RFI in the form discussed at the May meeting.

Form of the RFI

3. As tentatively decided at the May meeting, the RFI will be structured based on the key decisions made when IFRS 8 was developed. Those decisions were:
 - a. to identify segments on the basis of the management approach,
 - b. to measure disclosed line items on the basis used for internal reporting, and
 - c. to disclose only those line items regularly reviewed by the chief operating decision maker.
4. The RFI will also include a question about the disclosures required by IFRS 8 as well as a question about the implementation of IFRS 8 and the costs associated with implementation. We will also include a question to elicit information about the respondent's reporting environment (IFRS; non-IFRS; recent adopter).

5. The questions in the RFI will be worded in a neutral tone and will be at a high level focusing on the effect of applying IFRS 8.
6. We have included a first draft of the form that the questions in the RFI might take when published. This is included as appendix A to this paper. Although in draft, and subject to editing and further development, we would still be interested in your comments on the content, structure and style of the questions proposed.

Questions for the Board

7. The questions for the Board are:

Question
<ol style="list-style-type: none">(a) Do you grant us permission to publish an RFI on IFRS 8 drafted in accordance with the guidance in paragraphs 3-5?(b) Have you any comments on the content, structure or style of the draft questions proposed for inclusion in the RFI? These questions are included at Appendix A.

A1. Proposed questions – RFI post-implementation review of IFRS 8

Questions for respondents

The Board invites comments on any aspect of the application of IFRS 8.

Comments are most helpful to us, in our assessment of the effect of applying IFRS 8, if they are supported by examples from published financial statements in support of the effect reported to us or other evidence from the respondent in support of the comments made.

You do not have to answer every question and you are encouraged to comment on any additional matters that you think are relevant to our review of the application of IFRS 8.

We will consider all comments received by [DATE]. We base our assessment on the merits of the information provided and not on the number of responses to each question.

Question 1

What is your background and experience in reporting operating segments or in using reports about operating segments?

It is easier for us to understand the information that you give us if we know what your role is with respect to financial reporting and what you are comparing the application of IFRS 8 with.

We would like to know whether you are comparing IFRS 8 with IAS 14 or with a different, earlier segment reporting standard specific to your jurisdiction.

In providing this information, please tell us:

- (a) what your current job title is,
- (b) what your principal jurisdiction is, and
- (c) whether your jurisdiction or company is a recent adopter of IFRSs.

If you work in a non-IFRS environment your input is still useful to us- but we'd like to know about your current reporting of operating segments so that we can assess your information in that context.

Question 2

What was the effect on financial reporting of the IASB's decision to identify and report segments based on the management perspective?

The standard that IFRS 8 replaced, IAS 14 *Operating Segments*, was based on analysing the information in the financial statements according to business segment (ie products and services) or geographical areas of operation. The business segment was a distinguishable component of the entity engaged in providing a different product or service, or a different group of related products or services, and subject to different risks and returns from those other segments.

When developing IFRS 8, we found that there were concerns that this definition was imprecise and difficult to apply to different businesses operating under disparate circumstances. In addition, some companies that applied this definition interpreted their business as being a single business segment and provided no disaggregated information.

IFRS 8, on the other hand, adopted a management approach to segment identification. Under this approach, an operating segment is a component of an entity:

- a) that engages in business activities from which it may earn revenues and incur expenses;
- b) whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM); and
- c) for which discrete financial information is available.

When we issued IFRS 8 we expected that identifying operating segments based on the management approach would result in the following benefits to financial reporting:

- a) Companies would report segments that correspond to internal management reports. This would allow investors to view a company's operations from the same perspective as management and this would provide investors with more relevant information about the company's performance. We also thought that this would address concerns about the number of single-segment companies, because we thought that few companies do not disaggregate their business operations for internal reporting. In addition, we thought that reporting on an internal-reporting basis would enable preparers of financial statements to communicate more effectively with investors and other users of financial statements.
- b) Companies would report information that is more consistent with other parts of the annual report such as the management commentary or MD&A. The analytical value of the information produced would therefore be greater, because it is consistent with the company's organisation and overall financial communications. This integration would increase readers' understanding of both the segment information provided and the management commentary itself.

- c) Some companies would report more segments, improving the detail of the financial information provided.
- d) Segment reporting would be less burdensome on preparers because only one segment reporting process would be required for both internal and external reporting.
- e) Companies would be able to report more segment information in interim financial reports. We thought that because the information disclosed was based on internal reporting, entities would be able to provide more interim segment information in a more timely fashion and without incurring substantial additional cost.

When we developed IFRS 8, we consulted publicly through a comment letter process, before issuing the standard. Some comment letter respondents thought that the application of IFRS 8 could result in a loss of comparability. They were concerned that segments would not be comparable between companies, because each company would use its own management structure. Respondents were also concerned that trend information within individual companies would be lost over time if a company underwent frequent internal reorganisations.

When we issued IFRS 8 we thought that the benefits associated with company-specific segmentation would outweigh these concerns about a loss of comparability.

What is your experience of the effect of the Board’s decision to identify and report segments based on the management perspective?

In answering this question, investors should focus on whether our initial assessment that the management perspective would allow you to better understand the business was correct. What effect has IFRS 8 had on your ability to understand the business and to predict results?

Preparers should include information in their response about whether your reporting of operating segments changed on the application of IFRS 8 and, if it did, what effect that change had on the efficiency of your reporting processes and your ability to communicate with investors.

Question 3

What was the effect of the IASB's decision to require reported line items to be measured on a basis consistent with amounts reported to the chief operating decision maker (CODM)?

Reporting in accordance with IAS 14 required that each reported line item was to be measured on the basis used in preparing the financial statements, ie IFRSs. IFRS 8, on the other hand, requires that each reported line item is measured in accordance with how that amount is reported to the CODM for the purposes of making decisions about allocating resources to the segment and assessing its performance.

When we issued IFRS 8, we thought that the use of internally-reported measures would highlight the risks that management face every day. For example some line items might be measured at constant exchange rates if this risk is not managed at the operating segment level. Other companies might measure components of costs using standard, rather than actual, costs where these costs are not the responsibility of segment managers.

Our assessment was that this emphasis on managed risks reported to the CODM would give investors a greater understanding of how those risks are managed.

The public consultation we undertook before issuing IFRS 8 highlighted two concerns. Some respondents were concerned that the use of non-IFRS measurements would make the segment information difficult to understand, which would reduce its predictive value to investors. Others were concerned that the use of non-IFRS measurements would reduce the perceived reliability of segment information.

How has the use of non-IFRS measurements affected the reporting of operating segments?

In answering this question investors should comment on the effect that the use of non-IFRS measurements has had on your ability to understand the operating risks involved in managing a specific business and the operating performance of that business. It would be particularly helpful if you can provide examples of good or bad information from published financial statements that will enable us to understand the effects that you describe.

In responding to this question, it would be helpful if preparers could provide information about whether they changed their measurement basis for operating segment information on the application of IFRS 8 and, if so, what effect this has had on your ability to communicate information about operating risks and performance with investors and other users of your financial statements.

Question 4

What was the effect of the IASB's decision to report only those line items regularly reviewed by the CODM?

IAS 14 required the disclosure of specific line items such as revenue, profit or loss, depreciation and total operating assets and these line items were to be as defined by IFRSs. IFRS 8 requires that the reported line items should be those reviewed by the CODM and used as a basis for decision making.

When we issued IFRS 8 some investors were concerned that some line items that they think are important would be omitted from the information about operating segments. Many were concerned that companies would no longer disclose their operating result disaggregated by business segment or that the definition of the profit or loss measurement used would not be consistent with IFRSs. Others were concerned that they would not receive information about cash flows or working capital analysed by operating segment.

How has the requirement to use internally-reported line items affected financial reporting?

In answering this question, investors should focus on how the reported line items that you use have changed. Please also comment on which line items are/would be most useful to you, and why, and whether you are receiving these.

Preparers should provide information about any changes in reported line items that resulted from the application of IFRS 8.

Question 5

What effect have the disclosure requirements of IFRS 8 had on you and on how you do your job?

Disclosures were closely defined by IAS 14. In that standard, segment reporting consisted of both a primary segment and a secondary segment, with each segment being selected from business segments or geographical regions. Reported line items were mandated and those line items were defined in accordance with IFRSs. Fewer line items were mandated for whichever basis was designated as the secondary basis of segmentation.

Because each company's basis of segmentation will differ, IFRS 8 has a wider range of required disclosures. There is more disclosure, for example, about each company's individual segmentation basis. Each company is required to disclose general information about factors used to identify reportable segments and information about the types of products and services from which each segment derives revenue.

Concerns expressed during the development of IFRS 8 about the use of non-IFRS measurements, and about the requirement to disclose only those line items reviewed by the CODM, are addressed through the requirement to disclose a reconciliation of the amount for total reported segments with the company's total amounts for specified line items.

In addition, IFRS 8 requires the entity-wide disclosure of key operating information, unless it is not available and would be costly to develop:

- (a) revenues from external customers for each product or service on an IFRS basis;
- (b) revenues from external customers, split between country of the company's domicile and foreign countries. If revenues from external customers attributed to an individual foreign country are material, those revenues should be separately disclosed.
- (c) The disclosures required at (b) are also required for defined non-current assets.
- (d) If the revenues from a single customer make up more than 10 per cent of total revenue, the company should disclose that fact, the amount of revenue involved and the identity of the segment or segments in which the revenue is reported.

Most investors welcomed the additional disclosure, especially those entity-wide disclosures about customers. Some investors, however, find the reconciliations confusing because they take into account both differences in measurement bases as well as the difference that arise because of the definition of non-IFRS reported line items. Most investors think that the reconciliation should be prepared segment-by-segment rather than at a total operating segments level.

When we developed IFRS 8, we expected its application to be less burdensome for preparers than IAS 14 had been and our initial assessment is that this has proved to be correct. However, some preparers say that splitting the disclosures between segment information and entity-wide disclosures is confusing. Others find the entity-wide disclosures difficult to collect because they

cover a range of different aspects of the transaction data such as individual customers and countries.

How have the disclosures required by IFRS 8 affected you and how you do your job?

In answering this question, investors should provide examples from published operating segment information to illustrate your assessment of the disclosures relating to operating segments. Investors should also comment on the specific disclosure requirements of IFRS 8- for example, those relating to the identification and aggregation of operating segments; the types of goods and services attributed to reportable segments and the reconciliations required.

Preparers should consider whether operating segment disclosures are more or less burdensome when based on information prepared in accordance with your own internal reporting requirements. If any requirements are burdensome, please provide details of those disclosures and explain why they are costly or time-consuming to prepare. It would also be useful to indicate whether you report any segment information in addition to that required by IFRS 8.

Question 6

What was your experience of implementing IFRS 8?

At the time we issued IFRS 8 we thought that the incremental costs of applying IFRS 8 would be low because the information reported about operating segments would be provided by existing internal reporting systems and processes. We also thought that there would not be significant implementation issues in applying IFRS 8 because the existing reporting process would not require modification.

How were you affected by the implementation of IFRS 8?

In answering this question please focus on whether you incurred significant unexpected costs, either as a one-time expense on implementation of the IFRS or as a recurring cost at each reporting cycle. If yes, please explain what these were and why they were necessary in order to comply with IFRS 8

In addition, we'd like to know what practical difficulties you encountered in the application of IFRS 8, if any. Did you find that the standard was clear about all aspects of the requirements such as the identification of operating segments, aggregation of segments and the nature of the CODM? If the standard was not clear, please provide details of your experience.

Investors should focus on whether the way in which you use financial reports was changed by the application of IFRS 8. Please explain to us what that effect was and what consequences any changes had on how you analyse data or predict results.