

## STAFF PAPER

May 2012

**IFRS Interpretations Committee Meeting**

Previous meetings: March 2011

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| <b>Project</b> | <b>Post-implementation review—IFRS 8 <i>Operating segments</i></b>                           |
| Paper topic    | Update and planned approach for the investigation phase of review                            |
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

**Purpose**

1. Over the last few months we have developed and refined the Board's approach to post-implementation reviews (PIRs), a new mandatory step in the Board's due process for major projects and amendments to IFRSs. The first PIR will focus on IFRS 8 *Operating Segments*, which was issued by the IASB in November 2006 and became effective on 1 January 2009.
2. This paper explains how the proposed approach has changed since you were consulted on the generic methodology of PIRs in March 2011. In the paper we also ask for your help in completing the schedule of issues for investigation during the PIR process.

**Questions for the Committee**

3. In this paper we will ask:
  - (a) whether you have any alterations or additions to the schedule of issues for investigation; and

- (b) whether you have any comments or questions about the PIR of IFRS 8.

### **Structure of the paper**

- 4. The paper is organised as follows:
  - (a) introduction of PIRs;
  - (b) update on the generic PIR methodology;
  - (c) background to IFRS 8;
  - (d) progress to date on the PIR of IFRS 8;
  - (e) issues identified for investigation;
  - (f) project timetable and next steps; and
  - (g) questions for the Committee.

### **Introduction of PIRs**

- 5. The Trustees added PIRs as a mandatory step to the IASB's due process requirements in 2007. The current *Due Process Handbook* states that the PIRs would normally be limited to important issues identified as contentious during the development of the pronouncement and to consideration of any unexpected costs or implementation problems encountered. The handbook also states that the PIR should take place two years after the mandatory effective date.
- 6. IFRS 8 is the first of the Board's standards to be subject to a PIR.

### **Update on the generic PIR methodology**

- 7. You were last updated on the generic PIR methodology in March 2011. In that meeting, we also sought your views on the draft work plan proposed at that time.
- 8. The Board's approach has been further developed throughout 2011. Its current proposed methodology is now contained in the revised *Due Process Handbook* that

will be issued for public comment in May. An extract of the section of that handbook that deals with PIRs is attached as Appendix A.

9. The draft revised handbook describes two planned phases of a typical PIR:
  - (a) *Phase 1: Initial assessment and public consultation.* This phase consists of:
    - (i) an initial assessment to identify issues that were important or contentious at the time the IFRS was developed and to identify unexpected costs or implementation problems;
    - (ii) consultation with IFRS-related bodies and interested parties; and
    - (iii) public consultation on matters to be examined in a Request for Information (RFI).
  - (b) *Phase 2: Consideration of evidence and presentation of findings.* In this phase the Board will:
    - (i) consider comments received on the RFI;
    - (ii) consider the need for additional information or evidence; and
    - (iii) present its findings in a public report.

## **Background to IFRS 8**

10. The project to develop IFRS 8 was added to the Board's agenda in September 2002 as a short-term convergence project, conducted jointly with the United States standard-setter, the Financial Accounting Standards Board (FASB). The objective of the project was to reduce differences between IFRSs and US GAAP that were capable of resolution in a relatively short time and that could be addressed outside the major projects.
11. As part of the project, the Board identified the differences between the existing IFRS, IAS 14 *Segment Reporting* and the US standard, SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*. The Board also reviewed

academic research findings on segment reporting and held meetings with users of financial statements.

12. SFAS 131 and IAS 14 differed in two main respects:

- (a) *Identification of segments*: IAS 14 required segments to be identified based on differences in the risks and returns of either the products and services provided (a business segment approach) or the economic environments in which the entity operated (a geographical segment approach). SFAS 131 is based on reporting the operations ‘through the eyes of management’. The segments identified in accordance with the requirements of SFAS 131 are those segments that are used internally and that are reviewed by the chief operating decision maker (CODM) when allocating resources.
- (b) *Measurement basis*: IAS 14 required the amounts disclosed for each segment to be measured on an IFRS basis (ie consistently with the basis used in the rest of the IFRS financial statements). SFAS 131 requires the amounts disclosed for each segment to be measured on the same basis as that used internally by the CODM when allocating resources.

13. The main differences between SFAS 131 and IAS 14 are shown in the table below:

|   | <b>SFAS 131</b>  | <b>IAS 14</b>  |
|---|--|--|
| Basis on which reportable segments are identified | Segments operations on the basis of internal reporting used by the CODM in allocating resources. | Segments operations by the goods and services provided to customers or by geographical region. |

|   | <b>SFAS 131</b>  | <b>IAS 14</b>   |
|---|--|---|
| Measurement basis of required disclosures | Each reported line item is measured on the basis used for reporting to the CODM. | Each reported line item is measured on the basis used in preparing the group’s financial statements, in accordance with IFRS. |
| Consistency with financial statements     | Reported line items are not defined. Their basis should be explained.            | Reported line items such as profit are as defined in the financial statements.  |

14. The most controversial aspect of IFRS 8 was a move away from information presented on the basis of business and geographical segments to a ‘through the eyes of management’ approach. The other concern was allowing entities to report segment information using the information used by the CODM rather than IFRS line items and amounts.
15. A comparison of the expected benefits and expected disadvantages of applying the proposed standard at the time it was issued are shown in the table below:

| <b>Benefits</b>   | <b>Disadvantages; contentious issues</b>                               |
|---|--|
| Convergence with US GAAP  | Inconsistent segments between entities                                 |
| ‘Management eyes’ perspective would improve users’ ability to predict | Frequent internal reorganisations would result in a loss of trend data |
| Highlights risks that management think are important                  | Geographical analyses would not be available                           |
| Use of management reporting would result in greater interim reporting | Non-IFRS measures would not be understood                              |

## Progress to date on the PIR of IFRS 8

16. We have nearly completed our initial assessment of the scope of the review and intend to publish the RFI, referred to in paragraph 8, in June. We have completed a number of the activities described for phase 1:
- (a) We have completed the broad-scope review of publicly available materials from the firms, regulators and investors to identify preliminary issues for investigation and as a basis for performing our initial assessment.
  - (b) We have contacted firms, investors and national standard-setters to inform them about the process and ask for their help. We have held conference calls with members of the International Forum of Accounting Standard Setters (IFASS—formerly the National Standard Setters), as well as holding some individual meetings, to clarify their involvement in the process.
  - (c) We have collated a preliminary list of issues for investigation, based on information received from the IFASS participants, the firms, investors and others.
  - (d) An IASB academic fellow has begun a review of existing academic research and other literature.
  - (e) The Assigned Board members held a preliminary meeting to provide us with initial guidance on the scope and timing of the review and the development of the investigation programme.
  - (f) We met with Board members in small group meetings in February to discuss aspects of the PIR (timing, scope, interim reporting to the Board) in greater detail.
  - (g) We discussed the approach to the review work with the Trustees at meetings with the Due Process Oversight Committee in January and April.

- (h) The Board discussed progress on the PIR of IFRS 8 and the basis for public consultation at the February Board meeting.

**Issues identified for investigation**

- 17. As part of the PIR process we have assembled a table of issues that arose, or were expected to arise, on the application of IFRS 8. These issues have been collected from discussions and correspondence with the IFASS, firms, regulators, investors and others. The table of identified issues is attached as Appendix B.
- 18. The schedule of issues is not meant to be an assessment of the participants’ preliminary findings nor a summary of their conclusions about the application of IFRS 8. Instead it is a preliminary scoping exercise for the review process itself.
- 19. Understanding what the main issues are allows us to ensure that our efforts focus on gathering evidence about those key issues. In addition, by making ourselves aware at the planning stage of the likely issues that should be reported by the PIR process, we can test beforehand whether our investigation methodology is adequate to identify those issues and to gather sufficient evidence about those issues, in order that the Board can adequately assess the effect of IFRS 8 in that area.
- 20. We would like your input to this schedule of issues before it is used as the basis for drafting the RFI:
  - (a) Do you think that we have identified all the issues that should be investigated?
  - (b) Do you disagree with any of the issues noted?
  - (c) Do you think that the wording of any issues should be revised?

## Project timetable and next steps

| <b>Timing of review work performed</b> |   |
|--|---|
| <b>Time period</b>                     | <b>Activities</b>   |
| January and February                   | Identification of potential issues and design of work programme   |
| March and April                        | Preliminary issues identified tested with firms, regulators, standard-setters and investors. Review of existing academic research and other literature begun. |
| May                                    | Confirm issues for investigation. Board to confirm outline RFI and investigation methods.   |
| June                                   | Publish RFI   |
| July - October                         | Workshops and other outreach to gather additional evidence  |
| October                                | End of comment period   |
| November                               | Analysis of responses to the RFI and feedback from workshops and outreach activities  |
| December                               | Preliminary findings to Board<br>Board assess adequacy of data collected  |

21. Throughout the PIR process we will consult with the Committee on key messages received as and when that is necessary.

### Questions for the Committee

- (1) Are you aware of any additional issues that we need to add to the list of issues for investigation? Do you think that the wording of any existing issues should be revised?
- (2) Do you have any comments or questions about the PIR of IFRS 8 at this stage?



A1. Extract from Revised *Due Process Handbook* 30 April 2012

### **Post-implementation review**

- 1.1. The IASB is required to conduct a PIR of each new IFRS or major amendment.<sup>1</sup> A PIR normally begins after the new requirements have been applied internationally for two years, which is generally about 30 to 36 months after the effective date.
- 1.2. In addition to PIRs that respond to a new IFRS or major amendment, the IASB may decide to conduct a PIR in response to changes in the financial reporting environment and regulatory requirements, or in response to concerns about the quality of an IFRS that have been expressed by the Advisory Council, the Interpretations Committee, standard-setters or interested parties.
- 1.3. Each review has two phases. The first involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the IASB in the form of a *Request for Information*. In the second phase, the IASB considers the comments it has received from the Request for Information along with information it has gathered through other consultative activities. On the basis of that information, the IASB presents its findings and sets out the steps it plans to take, if any, as a result of the review.

### **Initial assessment and public consultation**

- 1.4. The goal of improving financial reporting underlies any new IFRS. A post-implementation is an opportunity to assess the effect of the new requirements on investors, preparers and auditors. The review must consider the issues that were important or contentious during the development of the publication (which should be identifiable from the Basis for Conclusions, Project Summary, Feedback Statement and Effect Analysis of the relevant IFRS), as well as issues that have come to the attention of the IASB after the document was published. The IASB and its staff also consult with the wider IFRS community to help the IASB identify areas where possible unexpected costs or implementation problems were encountered.
- 1.5. This initial review should draw on the broad network of IFRS-related bodies and interested parties, such as the Interpretations Committee, the IASB's consultative groups, including the Advisory Council, securities regulators, national and regional standard-setting bodies, preparers, auditors and investors. The purpose of these consultations is to inform the IASB so that it can establish an appropriate scope for the review. How extensive the consultations need to be in this phase will depend on the IFRS being reviewed and on what

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<sup>1</sup> This requirement was introduced in 2006. The first major project subjected to a review was IFRS 8 *Operating Segments*.

the IASB already knows about the implementation of that IFRS. The IASB needs to be satisfied that it has sufficient information to establish the scope of the review.

- 1.6. The IASB publishes a Request for Information, setting out the matters for which it is seeking feedback by means of a formal public consultation. In the Request for Information, the IASB should explain why it is seeking feedback on the matters specified and should include any initial assessment by the IASB of the IFRS or major amendment being reviewed. The Request for Information will also set out the process that the IASB followed in establishing the scope of the review.
- 1.7. The IASB normally allows a minimum of 120 days for comment on a post-implementation Request for Information. The IASB must inform the DPOC before the Request for Information is published if it intends to have a comment period of less than 120 days.
- 1.8. The IASB may decide, on the basis of its initial assessment, that it would be premature to undertake a review at that time. The IASB must inform the DPOC of its intention to defer a PIR, explaining why it has reached this conclusion and indicating when it expects to resume the review.

### ***Consideration of evidence and presentation of findings***

- 1.9. The IASB considers whether it is necessary to supplement the Request for Information with other information or evidence, such as by undertaking:
  - (a) an analysis of financial statements or of other financial information;
  - (b) a review of academic and other research related to the implementation of the IFRS being reviewed; and
  - (c) surveys, interviews and other consultations with relevant parties.
- 1.10. The extent to which further information is gathered will depend on the IFRS being reviewed and the feedback in the Request for Information.
- 1.11. The IASB considers the comments that it has received from the Request for Information along with the evidence and information that it has obtained from any additional analysis. When the IASB has completed its deliberations, it presents its findings in a public report. The IASB may consider making minor amendments to the IFRS or preparing an agenda proposal for a broader revision of the IFRS. There is no presumption that a PIR will lead to any changes to an IFRS. The IASB may also continue informal consultations throughout the implementation of the IFRS or the amendment to the IFRS. The IASB may recommend to the DPOC that the IASB should make changes to its procedures, such as how effects of the IFRS are assessed or additional steps that should be taken during the development of an IFRS.
- 1.12. The IASB must inform the DPOC when it has completed its review and provide the DPOC with a draft of the report. When the DPOC is satisfied that the IASB has completed the review satisfactorily, the report can be finalised.

A2. Issues for investigation

| Characteristics  | Possible effects   |
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| <b>Decision 1. Management perspective as basis of segmentation</b>   |  |
| <i>Does it provide more relevant information to users?</i>   | Has it affected forecast accuracy; forecast dispersion; analyst consensus?   |
| <i>Does it enable preparers to communicate more effectively with investors?</i>  |  |
| <i>Does the gain in entity-specific information outweigh the potential loss of comparability across entities?</i>  |  |
| <b>Definition of operating segments</b>  |  |
| <b>Identifying operating segments</b><br>Requirements of paragraphs 5-10 describing operating segments are descriptive and complex. Their interpretation can be subjective.  | <ul style="list-style-type: none"> <li>(a) It may be difficult to identify operating segments.</li> <li>(b) Inconsistent identification of operating segments may result in less useful information.</li> <li>(c) Some entities may interpret the identification criteria in a way that presents segments most favourably.</li> </ul>  |
| <b>Segregation of revenue-centres and cost-centres</b><br>An operating segment is defined as a component of an entity that engages in business activities from which it may earn revenues and incur expenses. <ul style="list-style-type: none"> <li>(a) A vertically integrated operation for which no revenues are allocated can still meet the definition of an operating segment.</li> <li>(b) Some manufacturing entities might have operating segments that are solely cost centres.</li> <li>(c) Customer facing segments might have revenue but not have central costs allocated to them.</li> <li>(d) An operating segment can include significant revenue relating to transactions with other operating segments.</li> </ul> | This can have a number of effects: <ul style="list-style-type: none"> <li>(a) It may be difficult to understand vertically integrated entities.</li> <li>(b) If costs and revenues are segregated in different segments, profitability may not be monitored, or meaningful, at a segment level.</li> <li>(c) Costs may be allocated to ‘all other segments’ to increase profitability of reported operating segments.</li> <li>(d) There may be a significant number of reconciling items between operating segment disaggregations and the financial statements. Useful information may be obscured.</li> </ul> |
| <b>Components omitted from the segment definition</b> <ul style="list-style-type: none"> <li>a) Components of the business will not meet the definition of an operating segment if it has no costs and / or it is not reviewed by the CODM. Eg sales of legacy software.</li> <li>b) Corporate HQ is not a segment.</li> <li>c) Other centrally-managed functions may be omitted from operating segments but may be key to managing operational profitability eg</li> </ul>  | <ul style="list-style-type: none"> <li>a) Significant components of the entity’s performance would be omitted from the disaggregated segment information. Will often be significant costs centres omitted from disaggregation.</li> <li>b) A significant segment explaining risk management may be unreported</li> </ul>   |

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| <p style="text-align: center;">treasury function in the financial sector</p>  |   |
| <p><b><i>Interaction between management structure and reported segments</i></b></p>   |   |
| <p><b>Use of management perspective</b></p> <ul style="list-style-type: none"> <li>a) Reporting based on management structure means easy to prepare, at little incremental cost</li> <li>b) Easy to prepare so facilitates interim disclosures</li> <li>c) Basing external reporting on how operating decisions are made should provide more useful information Management structure varies by entity</li> <li>d) Frequency of change in management structure may occur because of restructuring, acquisitions, disposals or changes in senior management.</li> </ul>             | <ul style="list-style-type: none"> <li>(a) There should be little additional costs on implementation and little recurring costs.</li> <li>(b) Early adoption should be easy, and common</li> <li>(c) Should result in more interim segment reporting</li> <li>(d) Interim segments may differ from year-end segments.</li> <li>(e) Investors will better understand risks and business decisions</li> <li>(f) Loss of comparability of segments across entities</li> <li>(g) Internal re-organisations will limit the comparability of segment information within that entity and results in loss of trend information</li> </ul> |
| <p><b>Management granularity</b></p> <ul style="list-style-type: none"> <li>a) Management structure is expected to be at a low level to be effective</li> <li>b) Reported operating segments should agree with MD&amp;A commentary</li> </ul>   | <ul style="list-style-type: none"> <li>(a) Should give increased granularity and more segments</li> <li>(b) Should result in fewer single segment entities</li> <li>(c) Many examples where MD&amp;A is different from reported segments</li> </ul>   |
| <p><b><i>Effect of CODM</i></b></p>   |   |
| <p><b>Identification of CODM</b></p> <ul style="list-style-type: none"> <li>(a) It can be difficult to identify the CODM.</li> <li>(b) It is not clear how to distinguish the CODM from key management personnel .</li> <li>(c) There is no requirement to disclose the identity of the CODM</li> </ul>   | <ul style="list-style-type: none"> <li>a) The CODM may be incorrectly identified</li> <li>b) The incorrect identification of the CODM could result in less-useful or misleading information being reported.</li> <li>c) CODM may not be disclosed, so basis of reporting may not be understood</li> </ul>   |
| <p><b>Strategic vs operating hierarchies</b></p> <ul style="list-style-type: none"> <li>(a) In groups, decisions are often taken at different levels eg business unit, business division or group. In basing decision making on the chief operating decision maker, the use of ‘operating’ seems to be a misnomer, as most seem to make this judgement based on strategic, rather than operational, decisions. Strategic decisions may be taken by group-level CODM; operating decisions taken at a lower level.</li> <li>(b) The CODM is defined as the function that</li> </ul> | <ul style="list-style-type: none"> <li>(a) Entities may be reluctant to give competitors full transparency of operational decision making and may want to obscure actual hierarchy.</li> <li>(b) MD&amp;A and presentations to investors may differ significantly from operating segment disclosures.</li> <li>(c) Multiple reporting hierarchies make it difficult to establish or verify which alternative reporting structure represents operating segments.</li> </ul>  |

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| <p>allocated resources and assesses performance. Those two functions can differ depending on type of transactions. Decisions re capital expenditure may be taken by one CODM based on one information set; the assessment of the performance of a customer-facing business unit may be made by another CODM based on another information set</p> <p>(c) Some believe that the CODM is assessed at too high a level. Some believe the CODM is identified on basis of strategic leadership and not ‘operational’ decision-making.</p> <p>(d) The emphasis placed on the information provided to the CODM places the emphasis on the reporting structure, rather than a management responsibility structure.</p>  | <p>(d) Matrix reporting especially problematic</p> <p>(e) How do you ensure completeness or, alternatively, prevent including some components twice if alternative structures are used?</p> <p>(f) Viewing segments at corporate level explains why often MD&amp;A has more granularity at an operating level</p>  |
| <p><b>Interaction with Board of Directors</b></p> <p>(a) Paragraph 8 implicitly extends the definition of the CODM by suggesting that one factor that helps identify an operating segment is whether the information is presented to the board of directors. The implication is that the CODM and the board of directors are the same. This view is reinforced by the practice that budgets (including the allocation of resources) are authorised by the board.</p>   | <p>a) Default may be to assume CODM is Board</p> <p>b) The board will include non-executive directors who cannot be CODMs</p> <p>c) Assuming the CODM= board will create corporate governance issues in some jurisdictions.</p>  |
| <p><b>Identifying segments - effect of aggregation guidance</b></p>  |  |
| <p>The inter-relationship between aggregating identified operating segments and identifying reporting segments is complex:</p> <p>(a) Paragraph 12 sets out a number of characteristics required for aggregation. This aggregation guidance is complex and there is no guidance on how the different factors included in the assessment of aggregation should be weighted.</p> <p>(b) Paragraph 15 then requires a second, relaxed application of those aggregation factors to ensure aggregated segments achieve quantitative milestones of 75%.</p> <p>(c) Preparers may become confused between the difference between operating segments and reporting segments.</p> <p>(d) Reporting segments are identified using 10% thresholds and total reported segments must exceed 75% thresholds.</p> <p>(e) 8.12 uses the term ‘similar’ for aggregation. Lack of guidance re economic risks. In</p> | <p>This complexity has a number of effects:</p> <p>(a) The basis of aggregation may not be adequately disclosed or may not be easily understood</p> <p>(b) Segments may be misidentified</p> <p>(c) Many think that the quantitative thresholds are rules that conflict with the principle. The materiality constraints and re-aggregation invalidate the initial identification process</p> <p>(d) Dis-similar segments may be aggregated</p> <p>(e) Due to the complexity of the process a number of dissimilar and immaterial segments may remain in ‘all other segments’.</p> <p>(f) Disclosures may be voluminous</p> |

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| particular, guidance takes no account of different market places, geographies or currencies.  |   |
| <b>Decision 2. Use of non-IFRS measures</b>   |   |
| <i>Does the required use of internally-reported (non-IFRS) measures provide more relevant information to users?</i>   |   |
| <p><b>Understandability of figures</b><br/>The use of non-IFRS measures was expected to result in a clearer communication of risks to investors.</p>  | <ul style="list-style-type: none"> <li>a) Are non-IFRS figures understood by investors?</li> <li>b) Does the use of non-IFRS measures result in a perceived lack of reliability?</li> </ul>   |
| The CODM may review a number of alternative profit measures eg EBITDA, PBT, PAT.  | <ul style="list-style-type: none"> <li>a) Many alternative non-IFRS profit measures may be used, restricting comparability.</li> <li>b) Are all alternative measures disclosed by segment or only at group level? (Paragraph 26 states that the alternative closest to IFRS should be used.)</li> </ul> |
| <b>Decision 3. Reporting based on use of CODM-reviewed line items</b>   |   |
| <i>Does the required use of internally-reported line items provide more relevant information to users?</i>  |   |
| <p><b>Reported line items</b><br/>Line items reported will be those reviewed by CODM.</p> <ul style="list-style-type: none"> <li>(a) This will vary between entities.</li> <li>(b) Within a single entity, this might vary with individual CODM or over time.</li> </ul>  | <ul style="list-style-type: none"> <li>(a) Line items that are important to investors, such as cash flows or working capital, may not be reported.</li> <li>(b) Lack of comparability between entities.</li> <li>(c) Loss of trend data</li> </ul>  |
| <p><b>Potential loss of profit information</b></p> <ul style="list-style-type: none"> <li>a) In many sectors, revenue is the key driver of performance.</li> <li>b) Costs may be managed separately and centrally.</li> <li>c) Cost may not be allocated.</li> <li>d) Segments may be managed solely through revenue and profitability may be ignored.</li> </ul> | <ul style="list-style-type: none"> <li>a) May omit operating profit from segment reporting</li> <li>b) Costs, and risks, may not be reported by segment</li> </ul>  |
| Emphasis is placed on information reviewed by CODM for purposes of making decisions and allocating resources. Information may be reported to the CODM – but not used.   | Impossible to verify what information is actually used by the CODM in decision making.  |
| <b>Decision 4. Disclosures required</b>   |   |
| <p><b>Confusing range of disclosures required</b></p> <ul style="list-style-type: none"> <li>a) Paragraphs 20-24, 28 and 31-34 all deal with disclosures.</li> <li>b) It is also unclear how they interact. Paragraph 32 requires an entity to report revenues from</li> </ul>  | <ul style="list-style-type: none"> <li>a) Including the disclosure requirements in different sections means the requirements are confusing and some disclosure may be omitted.</li> </ul>   |

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| <p>external customers for each product or service, unless it is included in disclosures about segments. It is unclear whether a company that reports on a product or service basis must make additional disclosures if its operating segments aggregate dissimilar products and services.</p>  |   |
| <p><b>Disclosure of balance sheet elements</b><br/>         Disclosure of assets is confusing and seemingly contradictory to requirement that only disclosed if reported to CODM:</p> <ul style="list-style-type: none"> <li>a) IN 6 Says measure of assets must be reported</li> <li>b) 28 c requires reconciliation of assets</li> <li>c) 13 quantitative threshold includes assets</li> </ul> <p>Paragraph 23 requires that total assets and liabilities of each reportable segment is disclosed if this information is regularly provided to the CODM.</p> <ul style="list-style-type: none"> <li>(a) The wording of this requirement is not clear – must both assets and liabilities be reported? To trigger the requirement, must the information regularly reported to the CODM be reported to him by segment or at corporate level?</li> <li>(b) Responsibility for balance sheet elements may not be managed at the operating segment level.</li> </ul> | <ul style="list-style-type: none"> <li>a) Balance sheet elements may not be disaggregated by segment</li> <li>b) Balance sheet elements may be difficult to allocate to operating segments.</li> <li>c) Allocations may be artificial or misleading.</li> </ul> |
| <p><b>Materiality</b><br/>         No specific guidance is given on materiality for disclosure. Some believe there is conflicting implied guidance on materiality:</p> <ul style="list-style-type: none"> <li>a) Paragraph 33 (a) and (b) require disclosure of geographical information, if material.</li> <li>b) Paragraph 34 requires disclosure if 10% or greater.</li> <li>c) Paragraph 10 defines reporting segments as operating segments that satisfy a 10% threshold.</li> </ul>  | <p>Disclosures may be excessive</p>   |
| <p><b>Reconciliations</b></p>  |   |
| <p><b>Complexity of reconciliations</b><br/>         Reconciliation to the corporate-level results can be confusing. Reconciling items include:</p> <ul style="list-style-type: none"> <li>(a) Operating segments that did not meet the ‘reportable’ criteria</li> <li>(b) Operations that do not meet the definition of an operating segment eg corporate HQ</li> <li>(c) Differences in the definition of line items eg EBITDA</li> <li>(d) Differences due to the use of non-IFRS</li> </ul>  | <ul style="list-style-type: none"> <li>(a) Reconciliations become so complex that information is lost</li> <li>(b) Material reconciling items may not be separately identified</li> <li>(c) Some adjusting entries may be commercially sensitive</li> </ul>     |

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| measures eg results at constant exchange rates; budgeted standard costing   |  |
| <p><b>Lack of presentation guidance</b><br/>No detailed guidance is provided about how the reconciliation should be presented or what degree of separation should be maintained between the four components (a-d) above.</p>  | Information may not be understandable and useful information may be lost   |
| <p><b>Level at which reconciled</b><br/>The adjusting items in the reconciliation are generally done at corporate level rather than segment-by-segment.</p>   | The value of the operating segment information is reduced.   |
| <b>Entity-wide disclosures</b>  |  |
| <ul style="list-style-type: none"> <li>a) Requirement for separate disclosure of material customers is useful. Some jurisdictions include suppliers as well.</li> <li>b) Geographical disclosure about revenue from external customers and non-current assets is required by paragraph 33.</li> </ul>   | May omit disclosure, especially if commercially sensitive.   |
| <b>Other consequences</b>   |  |
| <p><b>IAS 36 Impairment of Assets</b></p> <ul style="list-style-type: none"> <li>a) Confusion as some think CGUs should be reconcilable with operating segments</li> <li>b) Segments interface with CGU will differ because definition of operating segments may exclude central cost centres.</li> <li>c) If operating segments are assumed to mirror CGUs, increased granularity would result in greater risk of impairment.</li> </ul> | <ul style="list-style-type: none"> <li>a) If a shared-service model is used, CGUs may be very different.</li> <li>b) Pressure to amalgamate segments to prevent recognising impairment losses</li> </ul> |
| <p><b>IFRS 11 Joint Arrangements</b><br/>Reporting entity is required to equity account for joint ventures.</p>   | Will be excluded from reporting entity's segment analyses. May represent substantial proportion of undertaking, especially in some industries such as oil and gas.                                       |
| <p><b>Scope</b><br/>Some think that 'traded in a public market' excludes many entities eg managed funds and finance companies</p>   | <ul style="list-style-type: none"> <li>(a) Segment information is not provided</li> <li>(b) Some issuers may be given a competitive advantage in not having to disclose segments</li> </ul>              |