

STAFF PAPER

April 2013

IASB Meeting

Project	Post-implementation review IFRS 8 <i>Operating Segments</i>		
Paper topic	Sources of input to the PIR, due process and next steps		
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Purpose

1. During 2012, the IASB conducted its post-implementation review (PIR) of IFRS 8 *Operating Statements*. The evidence-gathering phase of the PIR was completed in December 2012.
2. This paper summarises the sources of input to the PIR process, the due process steps undertaken in conducting the PIR and the next steps.

Questions for the IASB

3. The purpose of this paper is to present you with a summary of how the PIR of IFRS 8 was conducted together with a completed due process protocol for this PIR. In this paper we will ask you whether:
 - (a) you think that the review work recorded in this paper is adequate with respect to the coverage of geographical regions and types of participants to ensure that representative views have been obtained ?
 - (b) you have any questions on the due process protocol or the conduct of the PIR of IFRS 8?
 - (c) we have complied with the required due process?

Structure of this paper

4. This paper is organised as follows:
 - (a) sources of input to the PIR process;
 - (b) due process relating to a PIR; and
 - (c) next steps.
5. The paper includes three appendices:
 - (a) A—Confirmation of the due process steps followed in conducting the PIR of IFRS 8;
 - (b) B—An analysis of the respondents to the request for information, extracted for convenience from Agenda Paper 6A *Comment letter analysis and summary of outreach conducted* presented at the January 2013 meeting of the IASB; and
 - (c) C—An outreach summary extracted for convenience from Agenda Paper 6A presented at the January 2013 meeting of the IASB.

Sources of input to the PIR process

6. The first phase of the PIR of IFRS 8 consisted of an initial assessment of the issues that arose on the implementation of IFRS 8. This assessment was conducted in the first half of 2012 through a review of available literature and educational materials and by consultation in more than 30 outreach events. This allowed us to compile a list of issues for subsequent investigation and to identify some preliminary key messages about the effect of implementing IFRS 8 so that we could establish an appropriate scope for the review.
7. In mid-2012 the PIR process entered the information-gathering phase. The PIR process is designed so that we gather evidence from which the IASB can draw conclusions about the effect of implementing IFRS 8. There were three principal sources of this evidence:
 - (a) public consultation through a Request for Information;
 - (b) outreach conducted; and

- (c) a review of existing literature and academic research.

Public consultation

8. A principal source of input to the PIR process was the information received in response to the IASB's request for information *Post-implementation Review: IFRS 8 Operating Segments* (the RFI). The RFI was published for public comment in July 2012; the comment period ended on 16 November 2012. The IASB received 62 comment letters in response to the RFI. These comment letters were analysed, and statistics about the respondents presented, in Agenda Paper 6A, which was discussed at the January meeting of the IASB. For convenience, an extract from that paper, analysing respondents to the RFI, is included as Appendix B to this paper.

Overview of outreach conducted

9. Throughout the second half of 2012, members and staff of the IASB took part in many outreach activities to raise awareness of this process across all interested parties and to collect information about the effect of implementing IFRS 8. In addition, many national standard-setters and regional forums undertook a number of local initiatives to widen the range of consultation. In this second, evidence-gathering phase, the members of the IASB and staff took part in 36 outreach events in a range of formats, including discussion forums, conferences, webcasts and individual meetings. This outreach was facilitated locally by national and regional standard-setters, academics and regulators. For convenience, an extract from Agenda Paper 6A, analysing outreach conducted, is included as Appendix C to this paper.

Consultation with investors

10. Investors and financial analysts are primary users of segment information and were therefore important sources of input to the PIR process. The IASB received six comment letters from investors and analysts, all of which were from representative bodies and therefore reflect the views of more than one entity or individual. Although letters from investors and analysts only accounted for 10 per cent of the comment letters received, this is a high proportion when compared

with other IASB consultations. Historically, investors are under-represented in the comment letter process.

11. It is for this reason that we develop more focused alternatives for engaging with investors. We undertook a number of outreach activities with investors in order to ensure that we received an adequate level of information about the effect of segment reporting on their activities. In total we attended 17 outreach events solely with investors, 8 of which were to define the areas for investigation and 9 of which were to collect information about the effect that applying IFRS 8 had on financial reporting. Outreach events were held with a number of user representative groups, including:
 - (a) the Capital Markets Advisory Committee (CMAC);
 - (b) the CFA Society of the UK;
 - (c) Corporate Reporting User Forum (CRUF), UK;
 - (d) Corporate Reporting User Forum (CRUF), South Africa;
 - (e) the EFRAG user group;
 - (f) the Eumedion Corporate Governance Forum;
 - (g) the European Federation of Financial Analysts Societies (EFFAS);
 - (h) the Japanese investor forum; and
 - (i) the User Advisory Council of Canada.
12. We did not target investors in the US directly as part of our PIR because they were targeted separately as part of the US PIR. (See paper 12 C *Lessons learnt about the PIR process*.) The survey conducted by the CFA Institute in the US in 2012 on segment reporting was included in our academic review as part of the PIR.
13. In addition to these investor-focused events, investors also participated in discussion forums, conferences, video links and other outreach events.
14. Information about investors' views has also been strengthened by including the results of investor surveys and investor-led research (such as those of the CFA Society of the UK, the CFA Institute and la Société Française des Analystes Financiers (SFAF)) in our literature review.

15. We thought it was particularly important in conducting this PIR to reach out to investors, because investors have provided a broader range of responses than any other type of participant. In particular, investors' views varied about the effect on financial reporting of applying the management perspective for identifying segments.
16. Some investors prefer to have information about how management views the business. When all aspects of an entity's reporting align so that operating segment information in the financial statements, management commentary and presentations to analysts agree, this provides more detailed, integrated information to them. In addition, the fact that the IFRS 8 information is audited increases the value that investors attribute to the other sources of consistent segment information.
17. On the other hand, other investors are wary of a segmentation process that is based on the management perspective. These investors mistrust management's intention and sometimes think that segments are reported in such a way as to obscure the entity's true management structure (often as a result of concerns about commercial sensitivity) or to mask loss-making activities within individual segments.
18. This disparity of views was subject to some geographical variation. Responses are most mixed within Europe. Other regions, such as Japan, New Zealand and South Africa, generally strongly support the management perspective. The variation in response may be due, in part, to perceived differences in corporate culture or variations in the robustness of local regulators.
19. Mixed responses were common from investors, no matter how that information was received, whether through outreach or in response to the RFI. The different messages were also apparent in the literature review presented as Agenda Paper 6C *Appendices: Summary of relevant literature to December 2013* in January 2013. The SFAF report, prepared by French analysts, reported several concerns about the management perspective. On the other hand, the CFA Society of the UK reported that only 18 per cent of respondents did not think that segmental reporting in accordance with IFRS 8 enabled them to better understand companies.

Review of existing literature and academic research

20. As part of the PIR process, a review was also conducted of academic research and available literature. The findings of a preliminary literature review were reported to the IASB in May 2012. This review was updated to December 2012 and presented to the IASB at its meeting in January 2013 as Agenda Papers 6B *Review of academic literature to December 2012* and 6C *Appendices: Summary of relevant literature to December 2012*.
21. Two types of academic studies were included in the review. Studies that are published (or accepted for publication) include data and conclusions that will not change. In contrast, working papers are work in progress and may be revised and developed further. Their data and conclusions may change. The review of existing literature also included other reports on the effects of implementing IFRS 8 that had been provided by a number of entities.
22. The review refers to 30 studies:

Type of study	Number
Published work	5
Working papers	15
Other literature	10
TOTAL	30

Summary of sources of input

23. These findings, whether from responses to the RFI, outreach or our review of available literature, were discussed by the IASB at its January 2013 meeting. At that meeting the IASB decided that it had received sufficient input into the PIR process and requested that a feedback summary should be prepared.
24. We think that this analysis of the sources of input to the PIR process confirms that decision and that the information received from the PIR of IFRS 8 is:
- (a) balanced with respect to types of participants and geographical regions;
and
 - (b) sufficient to form the basis for your report on the PIR of IFRS 8.

25. In our view, the approach used for the PIR of IFRS 8 provided an open forum for discussion of the effects of implementing the Standard and collected sufficient information for the IASB to complete its review satisfactorily.

Question 1

Do you think that the review work recorded in this paper is adequate with respect to geographical regions and types of participants to ensure representative views have been obtained?

Due process relating to a PIR

26. The due process relating to the second stage of a PIR is included in the *Due Process Handbook*:

Consideration of evidence and presentation of findings

6.56. 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.

6.57. The extent to which further information is gathered will depend on the IFRS being reviewed and the feedback in the Request for Information.

6.58. 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.

6.59. 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.

27. In Appendix A we have summarised the due process steps that we have taken in conducting the PIR of IFRS 8 to March 2013. The Due Process Oversight Committee ('the DPOC') will discuss progress on the PIR at its April 2013

meeting and will receive a draft of the report, prior to publication. We will provide an update for you at the April meeting about any messages received from the DPOC with regard to the PIR of IFRS 8.

Question 2

Do you:

- (a) have any questions on the due process protocol or the conduct of the PIR of IFRS 8?
- (b) think that we have complied with the required due process?

Next steps

28. We intend to draft the *Feedback Statement and IASB Report on the Post-implementation Review of IFRS 8* based on the comments about Agenda Papers 12 B and 12 C given to us at this meeting. In this paper, we have asked you whether you think that we have received sufficient information to ensure that the views received are representative and whether we have complied with due process. If you answer 'yes' to those questions at this meeting, we would expect to publish the *Feedback Statement and IASB Report on the Post-implementation Review of IFRS 8* in June 2013.

Appendix A Confirmation of the due process steps followed in conducting the PIR of IFRS 8 *Operating Segments*

A1. The following table sets out the due process steps followed by the IASB in conducting its PIR of IFRS 8:

<i>Step</i>	<i>Required/Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
Timetable for PIR is established	Required	PIR discussed in a public meeting and included in IASB work programme	The IASB has reported on progress as part of the quarterly report at Trustee meetings.	<p>Plan for the conduct of the IFRS 8 PIR, including a draft timetable, was considered by the IASB at its March 2012 meeting (Agenda Paper 8).</p> <p>Progress report on the IFRS 8 PIR, including a draft timetable, considered by the DPOC at its April 2012 meeting (Agenda Paper 3D).</p> <p>Update and planned approach for the investigative phase of the review considered by the Interpretations Committee (Agenda Paper 16) and IASB (Agenda Paper 12) at their May 2012 meetings, including a project timetable and next steps (Agenda Paper 16).</p> <p>Report on progress included in quarterly report to Trustees at their July 2012 meeting.</p>
Establishment of scope, including identifying the important or contentious issues that came up during development of the publication	Required	<p>The initial review should draw on the broad network of IFRS related bodies and interested parties.</p> <p>Contentious issues are identifiable from the Basis for Conclusions, Project Summary, Feedback Statement and Effect Analysis.</p> <p>Significant issues that have come to the attention of the IASB after the document was published.</p>	The IASB has reported on progress as part of the quarterly report at Trustee meetings, including the extent of IASB consultation in establishing the scope of the review.	<p>Plan for the conduct of the IFRS 8 PIR, including the consultations undertaken and the issues identified for the review, was considered by the IASB at its March 2012 meeting (Agenda Paper 8).</p> <p>Progress report on the IFRS 8 PIR, including the consultations undertaken, considered by the DPOC at its April 2012 meeting (Agenda Paper 3D).</p> <p>Update and planned approach for the investigative phase of the review considered by the Interpretations Committee (Agenda Paper 16) and IASB (Paper 12) at their May 2012 meetings, including the consultations undertaken and the issues identified for investigation (Agenda Paper 16).</p> <p>Report on progress included in quarterly report to Trustees at their July 2012 meeting.</p>

Step	Required/ Optional	Metrics or evidence	Evidence provided to DPOC	Actions
<p>After the initial assessment, one of two routes may be taken:</p> <ul style="list-style-type: none"> • <i>Request for Information published to invite public comment, with appropriate comment period</i> • <i>On the basis of its initial assessment, the IASB may decide that it would be premature to undertake a review at the time</i> 	<p>Required RFI published</p>	<p>The RFI explains why the IASB is seeking feedback on the specified matters and should include any initial assessment by the IASB of the Standard under review.</p> <p>The RFI describes the process that the IASB followed to establish the scope of the review.</p> <p>The IASB sets a comment period for response, normally a minimum of 120 days. If outside the normal comment period, an explanation has been provided from the IASB to the DPOC, and the decision has been approved.</p> <p>If the second option is appropriate, the IASB has informed the DPOC of its intention to defer the PIR and explain why this conclusion was reached and when it expects to resume the review.</p>	<p>The DPOC has been informed that an RFI is to be released, with a summary of the extent of the IASB's deliberations.</p> <p>The DPOC has been consulted on any unusually short comment period.</p> <p>The DPOC has received notice of the IASB's intention to defer a PIR, along with the reasons why the conclusion was reached and when the review is expected to resume. The DPOC must approve any such delay.</p>	<p>Update report considered by the Interpretations Committee at its May 2012 meeting (Agenda Paper 16) envisaged a RFI to be published in June 2012.</p> <p>Update report considered by the IASB at its May 2012 meeting (Agenda Paper 12) outlined a proposed structure for the RFI and tentative questions.</p> <p>In a paper to the IASB at its June 2012 meeting (Agenda Paper 12A) the staff sought permission to publish an RFI and asked for comments about the content, structure and style of the questions proposed for inclusion. <i>IASB Update</i> (June 2012) reported that the IASB had agreed to the staff's request to publish an RFI, structured in accordance with the staff's proposals.</p> <p>Report to the DPOC and draft RFI submitted 4 July 2012.</p> <p>RFI published 19 July 2012, with a 120-day comment period (to 16 November 2012).</p>
<p>The IASB considers whether it is necessary to supplement the Request for Information with other evidence by undertaking analysis of financial information, a review of academic or other research related to the implementation of the IFRS being reviewed or consultations with relevant parties.</p>	<p>Optional Under- taken</p>	<p>Staff paper provided to the IASB analysing its assessment of academic and other research.</p>	<p>The IASB has reported on progress as part of the quarterly report at Trustee meetings.</p>	<p>Update report considered by the Interpretations Committee at its May 2012 meeting (Agenda Paper 16) noted that an IASB Academic Fellow had begun a review of existing academic and other literature. Review referred to in the update report considered by the IASB at its May 2012 meeting (Agenda Paper 12).</p> <p>Papers to IASB at its June 2012 meeting included a <i>Review of academic literature to May 2012 – preliminary findings</i> (Agenda Paper 12B) and a <i>Summary of the findings of academic research and other reports about the impact of IFRS 8 to May 2012</i> (Agenda Paper 12C).</p> <p>The project plan also included interviews with users and preparers to supplement the RFI.</p> <p>Report on progress included in quarterly report to Trustees at their July 2012 meeting.</p>

Step	Required/Optional	Metrics or evidence	Evidence provided to DPOC	Actions
Analysis and preparation of final report				
Project teams analyse and summarise comment letters for the IASB's consideration. IASB posts all comment letters in relation to the RFI online.	Required	Analysis provided and discussion of comments received and any additional analysis for any supplementary undertakings that may have been conducted has been made in public.	The IASB reports on progress as part of its quarterly report at Trustee meetings.	Closing date for IFRS 8 RFI 16 November 2012. 62 comment letters received—all posted to the IASB website. Papers to IASB at its January 2013 meeting consisted of: <i>Agenda Paper 6A Comment letter analysis and summary of outreach conducted</i> , As well as receiving 62 comment letters, the IASB and staff took part in over 60 outreach activities. This paper summarised the information received. <i>Agenda Paper 6B Review of academic literature to December 2012</i> This paper presented the findings of academic research and other reports about the impact of the application of IFRS 8; and <i>Agenda Paper 6C Appendices: Summary of relevant literature to December 2012</i> . This paper provided details of the findings of academic research and other reports about the impact of application of IFRS 8.
IASB meetings are held in public, with papers being available for observers. All decisions are made in public session.	Required	Number of meetings held to discuss the PIR. Project website contains a full description with up-to-date information. Meeting papers have been posted in a timely fashion.	The IASB and the DPOC discuss progress on the PIR, in relation to the due process being conducted. The IASB and the DPOC review its due process over the cycle of the PIR, and how any issues regarding the due process have been/are being addressed. The DPOC reviews and responds to comments on due process as appropriate.	Report on progress included in quarterly report to Trustees at their January 2013 meeting. IASB discussion January 2013 held in public. <i>IASB Update</i> (January 2013) noted that the IASB endorsed the staff view that they had now received sufficient information for the IASB to report on its post-implementation review of IFRS 8. The IASB requested that the staff should prepare a feedback statement on the information received from the post-implementation review of IFRS 8 for presentation at a future IASB meeting. IASB and DPOC discussion scheduled to take place at April 2013 DPOC meeting, including review of due process and whether any issues regarding due process have been raised and, if so, how they should be addressed.
Public report.	Required	Once deliberations are complete, the findings are presented in a public report.	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 believes that the review has been satisfactorily completed, the report can be finalised.	The IASB will discuss the messages received, and its response to these messages, at its April 2013 meeting. This discussion will also include an analysis of lessons learnt about the PIR process. At this meeting the IASB will be asked whether they have received sufficient information about these messages and whether we have complied with due process. If approved, <i>Effects Analysis and Report on the Post-implementation Review of IFRS 8 Operating segments</i> should be published in June 2013. The draft report will be presented to the DPOC for review prior to finalisation by the IASB.
Implementation of PIR findings.	Required	Minor amendments have been added to the IASB work programme.	The IASB reports on progress as part of its quarterly report at Trustee meetings.	Still to be determined whether this is necessary.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
Implementation of PIR findings.		More substantial concerns have been considered as part of the research programme and a project proposal has been developed, if appropriate.	The IASB reports on the progress as part of its quarterly report at Trustee meetings.	Still to be determined whether this is necessary.
Implementation of PIR findings.		Recommended changes to due process have been discussed by the DPOC.	Staff prepare and present the paper to the DPOC, recommending appropriate actions.	Still to be determined whether this is necessary.

Appendix B Extract from Agenda Paper 6 A *Comment letter analysis and summary of outreach conducted*

Overview of the comment letter respondents

The RFI was issued on 19 July 2012 and the comment letter period ended on 16 November 2012. The IASB received 62 comment letters, which are summarised below by type of respondent and geographical region.

Type of comment letter respondent

Type of respondent	Number of respondents	Percentage of respondents
Preparers and industry organisations	23	35
Accounting firms and accountancy bodies	14	23
Standard-setters	14	23
Investors	6	10
Regulators and government agencies	4	7
Individuals	1	2
Total	62	100

A diverse range of types of interested parties responded to the RFI.

Preparers are less frequently represented compared to some other public consultations. Various participants have suggested that this reluctance is due either to concerns about regulatory breaches or confidentiality if difficulties in past financial reporting are disclosed, or to a lack of interest in commenting on a Standard that they think is satisfactory or that has resulted in few changes to existing reporting.

Standard-setters and regulators are well represented in the comment letter respondents, reflecting their commitment to developing and participating in this process.

The response from investors was limited (to 6 respondents) as is often the case when dealing with a formal comment letter process. However, it should also be noted that the 6 investors were representative bodies and therefore reflect the views of more than one entity or individual. In addition, information about investors' views has been strengthened by including the results of investor surveys and investor-led research (such as those of the CFA Society of the UK and la Société Française des Analystes Financiers (SFAF)) in our literature review, Agenda Paper 6B. Investors were also consulted through targeted outreach.

Geographical distribution of comment letter respondents

Geographical region	Number of respondents	Percentage of respondents
Europe	33	53
Asia and Oceania	11	18
International	7	11
Latin America	5	8
North America	4	7
Africa	2	3
Total	62	100

All geographical regions were represented in the responses. Europe is the geographical region providing most respondents, reflecting that region's early adoption of IFRSs compared with other, more recent, adopters of IFRSs. Relatively few responses were received from North America. This is thought to be because there was no difference between IFRS 8 and segment reporting requirements for the United States or Canadian GAAPs.

Appendix C Extract from Agenda Paper 6 A *Comment letter analysis and summary of outreach conducted*

Overview of outreach conducted

The first phase of the PIR of IFRS 8 consisted of an initial assessment of the issues that arose on the implementation of IFRS 8. This assessment was conducted in the first half of 2012 through a review of available literature and educational materials and by consultation in more than 30 outreach events. This allowed us to compile a list of issues for subsequent investigation and to identify some preliminary key messages about the effect of implementing IFRS 8.

Throughout the second half of 2012, members and staff of the IASB took part in many outreach activities to raise awareness of this process across all interested parties and to collect information about the effect of implementing IFRS 8. In addition, many national standard-setters and regional forums undertook a number of local initiatives to widen the range of consultation.

In this second, information-gathering phase, the members of the IASB and staff took part in 36 outreach events, which are summarised below by type of participant and geographical region.

Type of participants and outreach activities

Participant type	Number of events	Percentage of events
Public discussion forums and webcasts	11	31
Investors	9	25
Standard-setters	7	19
Regulators and government agencies	6	17
Auditors and accounting firms	3	8
Total	36	100

A number of formats were employed for this outreach, including webcasts, discussion forums, videoconferences and one-to-one interviews:

- We attended a number of public discussion forums organised by local or regional standard-setters, regulators or other institutions. These forums generally included a cross-section of all types of participants, including preparers and local accounting firms.
- We held a number of meetings with standard-setters and regulators in order to hear what information these bodies had collected from a wide range of participants in their jurisdictions.
- Accounting firms and preparers requested fewer dedicated meetings than usual. We think this is because interested participants from these populations either sent

their comments to their local standard-setter or regulator or took part in a regional discussion forum.

Geographical distribution of outreach conducted

Geographical region	Number of events	Percentage of events
Europe	17	47
Asia and Oceania	9	25
International	5	14
North America	2	6
South America	2	6
Africa	1	2
Total	36	100

All geographical regions were represented in the outreach conducted. The geographical distribution of outreach conducted shows similar characteristics to that for comment letter respondents.