STAFF PAPER

April 2013

IASB Meeting

Project	**Post-implementation review IFRS 8 *Operating Segments***
Paper topic	Messages received and draft feedback summary

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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 and the feedback received and discusses the IASB's draft responses to that feedback. Preliminary findings from this feedback were presented to the January 2013 meeting of the IASB as three agenda papers:

   (a) Agenda Paper 6A *Comment letter analysis and summary of outreach conducted*;

   (b) Agenda Paper 6B *Review of academic literature to December 2012*; and

   (c) Agenda Paper 6C *Appendices: Summary of relevant literature to December 2012*.

Questions for the IASB

3. The analysis presented here will form the basis of the Feedback Statement. In this paper we are seeking feedback from the IASB on the following questions:

   (a) Has this paper identified all of the key messages received from the post-implementation review of IFRS 8?

(b) Do you agree with the suggested responses?

(c) Do you have any further comments for inclusion in the response?

Structure of this paper

4. This paper is organised as follows:

   (a) key messages received about the effect of implementing IFRS 8;

   (b) staff summary of the findings;

   (c) feedback summary on the effects of implementing IFRS 8; and

   (d) comparison with the findings of the US PIR.

Key messages received about the effects of implementing IFRS 8

5. Preparers generally think that the Standard works well, while the views of investors are more mixed. Auditors, accounting firms, standard-setters and regulators generally support the Standard, but have made some suggestions to improve its application.

6. We generally received very similar messages across all geographical regions. Similarly, the messages received from the outreach that we conducted were similar to those contained in the comment letters.

Messages received through consultation

7. Common messages that we received through both the comment letter process and the outreach conducted were:

   (a) Information about operating segments is important to investors. It provides analysis that is fundamental to their understanding of the entity's performance and their ability to predict future cash flows and profits.

   (b) Many participants support the use of the management perspective.

   (c) Reported segments did not change in some jurisdictions because internal reporting had been modelled on the form previously used in the financial statements when reporting in accordance with the previous Standard, IAS 14 *Segment Reporting*.

(d) When the management commentary, the segment analysis and investor presentations are all aligned with each other, the basis of segmentation is identical and this cross-validates all three sets of data. The alignment of segment information boosts investor confidence in the information presented and increases the value that investors place on this information. In cases, however, in which the management commentary and the segment information are prepared on different bases, both investors and regulators expressed concern at this difference.

(e) Some investors were concerned at the number of different, non-IFRS sub-totals, such as EBITDA, used for reporting operating results because this greatly reduced comparability between entities.

(f) Some investors were also concerned that some entities no longer report particular key line items, such as depreciation, gross margin and cash flow, by segment.

(g) The concept of the chief operating decision maker (‘the CODM’) was difficult to understand and to implement when the Standard is applied for the first time.

(h) Some think that the aggregation guidance is complex and difficult to apply. In addition, some investors are concerned that inappropriate aggregation occurs, either because preparers are unclear about what ‘similar economic circumstances’ mean or because quantitative thresholds in the Standard contradict its core principle.

(i) The incremental costs of applying IFRS 8 were generally low. Many preparers report significant ongoing cost savings because of increased efficiencies in merging internal and external processes and systems.

Findings from academic research

8. Our review of academic research and other available literature highlighted the following findings:

(a) Fewer entities reported only one segment after the implementation of IFRS 8.

(b) Most companies reported no change in the number of reported segments. Companies that did report a change generally reported an increase in the number of reported segments.

(c) There has been a decrease in the number of some key reported line items, especially in relation to segment liabilities and capital expenditure.

(d) There is mixed evidence about whether entity-wide disclosures have provided sufficient transparency to reduce concerns about a lack of geographical disclosures.

9. These messages, and our suggested responses, are discussed in more detail in the feedback summary in this paper.

Staff summary of the findings

33. We think that the information provided to the PIR confirmed many of the IASB's expectations when they issued the Standard. The use of the management perspective did make communication by management with investors easier and the incremental costs of implementation were low.

34. We note, however, that messages received from investors on IFRS 8 were mixed. 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 financial presentation agree, this provides more detailed, integrated information to them. On the other hand, some investors are wary of a segmentation process that is based on the management perspective. Investors were also concerned at the number of different, non-IFRS sub-totals, such as EBITDA, used for reporting operating results because this greatly reduced comparability between entities.

35. Nonetheless, our conclusion is that the benefits of applying the Standard were largely as expected and that overall the Standard achieved its objectives and improved financial reporting. It is clear, however that some investors have

concerns about the information provided when segment information is disclosed in accordance with IFRS 8.

36. We do not think that these concerns warrant a revision of the principles on which the Standard is based because the evidence provided to us does not suggest that there are any significant failings in the Standard. Consequently, we do not think that this standard should be considered for amendment as part of the IASB's three yearly review.

37. We do, however, think that there are some issues that could be considered for improvement by the IASB. As a result of the information provided to us, we have identified some areas that we think warrant further investigation as potential subjects for a narrow-focus amendment to IFRS 8. These areas are identified in the feedback summary in this paper and are summarised in this table:

Areas for potential narrow-scope amendments	
Issue raised	**Participants' suggestions**
Maintenance of IFRSs	
The concept of an identifiable CODM is confusing and outdated. Identification of the CODM is difficult in practice.	Participants suggest that we provide more guidance *or* replace 'CODM' with a more common term, such as 'Key management personnel' as defined by IAS 24 *Related Party Disclosures* or 'governing board' in the *Conceptual Framework*, although we note that KMP currently includes non-executive directors.
Some preparers are uncertain how the reconciliation should be presented and how reconciling amounts should be disclosed. Some investors find the reconciliations difficult to understand.	Some regulators and preparers suggest that we provide implementation guidance that includes a comprehensive example of such a reconciliation.
Improved disclosures	
Any change in the basis of segmentation year-on-year results in the loss for investors of valuable trend information for that entity.	In the event of a reorganisation, investors suggest that 3-5 years' comparatives to be presented for segment information.
Many entities present different definitions of 'operating result' or 'operating cash flow', making comparison difficult between entities. Investors report that important line items needed to derive these sub-totals are often not separately reported.	Investors would like us to require disclosure of defined line items (such as depreciation) in order that investors can calculate their own sub-totals for operating result or cash flow. Some investors think that non-IFRS defined sub-totals should be labelled 'adjusted'.
Many investors think that operating segments are aggregated inappropriately, reducing the value of the information presented.	It has been suggested that we provide guidance on the nature of 'similar economic characteristics'; remove quantitative thresholds.
Some investors cannot understand how reconciling	Many investors would like reconciliations prepared

amounts relate to each segment.	segment-by-segment, but others warn about introducing the need for non-systematic allocations.

Assessing potential candidates for narrow-focus amendments

38. The IASB and the Interpretations Committee are responsible for the maintenance and improvement of IFRSs. The first stage in investigating these issues would be to assess the issues identified against the agenda-setting criteria set out in the *Due Process Handbook*:

> 5.4 The Interpretations Committee should address issues:
>
> (a) that have widespread effect and have, or are expected to have, a material effect on those affected;
>
> (b) where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and
>
> (c) that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.

39. The investigation and assessment of these issues will also need to be carried out in the context of our ongoing work on the *Conceptual Framework* and our more general review of disclosure requirements. Financial reports are the main communication tool for many entities and segment information is a key input into most investors modelling of future results and cash flows, but consultation through the disclosure forum indicates that there is increasing concern about disclosure overload. Any proposals to change disclosure requirements in IFRS 8 would have to take those concerns into account.

40. In addition, we recommend in Agenda Paper 12 C *Lessons learnt about the PIR process* that any changes proposed to a converged Standard as a result of a PIR should also be discussed with the FASB as part of our assessment process. The process needed to assess whether a converged standard is amended is discussed more fully in that paper.

41. We do not think that proposing an amendment to any standard should form part of the PIR process. We think that the purpose of the PIR is to identify the issue; the solution will be identified as part of the subsequent investigation. Having said that, we have included some comments and suggestions received from participants in the table in paragraph 37 and we think that the evidence received as part of the PIR process will provide a valuable source of input if and when the IASB decides to assess any of the issues identified for investigation.

42. The evidence received from the PIR of IFRS 8 is recorded in more detail in the feedback summary below.

Feedback summary on the effects of implementing IFRS 8

43. We propose that the feedback summary should be organised on the basis of the technical questions asked in the RFI:

(a) What is your experience of the effect of the IASB's decision to identify and report segments using the management perspective?

(b) How has the use of non-IFRS measures affected the reporting of operating segments?

(c) How has the requirement to use internally reported line items affected financial reporting?

(d) How have the disclosures required by IFRS 8 affected you in your role?

(e) How were you affected by the implementation of IFRS 8?

44. For each of the following topics to be addressed in the feedback statement, we have shown in a table the key comments received and the draft responses proposed for each.

Identifying and reporting segments based on the management perspective

45. The key messages received about the basis of segmentation, and our suggested responses to each, are shown in the table below:

Segmentation of the business is based on the management's perspective—how management disaggregate the business when making decisions. We expected that the management perspective would allow investors to better understand the entity's business and would make it easier for management to communicate with investors and lenders.	
Messages received	**Our suggested responses**
Lack of change by some entities Reported segments did not change in some jurisdictions because internal reporting had been modelled on the form previously used in the financial statements when reporting in accordance with the previous Standard, IAS 14.	

<table>
<tr><td colspan="2">Segmentation of the business is based on the management's perspective—how management disaggregate the business when making decisions. We expected that the management perspective would allow investors to better understand the entity's business and would make it easier for management to communicate with investors and lenders.</td></tr>
<tr><td>Messages received</td><td>Our suggested responses</td></tr>
<tr><td>Link with management commentary and presentations

When the basis of segmentation used in the financial statements agrees with the management commentary and financial presentation, this results in cross-validation of the three sets of data and adds depth to the information provided. In cases, however, in which the segment information and management commentary are prepared on different bases, both investors and regulators expressed concern at the difference.</td><td>When we issued IFRS 8 we expected that the operating segment information would agree with the management commentary and that the management commentary would add greater depth to the segment information presented in the financial statements. A number of regulators have reported that they investigate when the two bases of segmentation used are different. Some jurisdictions report that continued enforcement has improved the alignment of the management commentary and the segment information.</td></tr>
<tr><td>Increase in reported segments

Academic research shows that fewer entities reported only one segment after the implementation of IFRS 8, but otherwise most companies reported no change in the number of reported segments. Companies that did report a change generally reported an increase in the number of reported segments.

Nonetheless, investors would like disaggregation, and the number of reported segments, to increase.</td><td>When we issued IFRS 8 we expected that there would be fewer single-segment entities when the standard was applied because we did not think that many entities were managed as a single segment. We think that the small increase in reported number of segments will provide more detailed, and hence more useful, information for investors.

We note that investors would like reported segment information to be as detailed as possible.</td></tr>
<tr><td>Comparability between entities

Many respondents expressed concern that segments are not comparable across entities, even within the same industry.</td><td>We know that comparability between entities is a key requirement of investors. Many investors accept, however, that comparability can rarely be achieved no matter how the basis of segmentation is defined or prescribed. This is because the individual components of different businesses will not be identical and the relative importance and materiality of similar components will differ between entities.</td></tr>
<tr><td>Loss of trend data on reorganisation

Trend analysis is an important tool for investors. We received many examples from participants of entities that had changed their segments from year to year since the implementation of IFRS 8. This prevents investors from carrying out trend analyses as part of their decision-making process.</td><td>IFRSs require that the comparative is restated whenever there is a restructuring. We accept, however, that information about trends by segment is particularly useful to investors. Some respondents have suggested that the number of comparative periods required for this information should be increased to 3 or 5 years, but we are concerned that this might place a burden on preparers. We think that this area is a potential candidate for consideration as a narrow-focus amendment to IFRS 8.</td></tr>
</table>

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Messages received	**Our suggested responses**
Concerns about commercial sensitivity Several respondents had concerns about the release of commercially sensitive information. This view was especially prevalent in jurisdictions with smaller capital markets, where many participants may be family-run entities, and with smaller entities generally.	IFRS 8 does not include an exemption from disclosure on the grounds of commercial sensitivity. Although we are sympathetic to the specific concerns raised, we think that a competitive-harm exemption is inappropriate because it would provide a means for broad non-compliance with the Standard.

Use of non-IFRS measures

46. The key messages received about the use of non-IFRS measures and our suggested responses to each are shown in the table below:

Amounts reported for operating segments are measured in accordance with the basis used for internal reporting. When we issued IFRS 8, we thought that the use of internally reported measures would highlight the risks that management face every day and this would give investors a greater understanding of how those risks are managed.	
Messages received	**Our suggested responses**
Non-IFRS measures are not well explained Most investors and regulators think that, if used, non-IFRS measures need to be clearly explained. One investor suggested that whenever a reported line item is defined or measured on a non-IFRS basis, it should be described as 'adjusted'.	The Standard requires that the basis of measurement used is disclosed, but we accept that explanations of these bases may not always be clear. We agree that describing non-IFRs line items as 'adjusted' might be useful. We think that this area is a potential candidate for consideration as a narrow-focus amendment to IFRS 8.
Non-IFRS measures are confusing Many investors think that non-IFRS measures can be helpful in communicating information about operating risks and performance and in providing a useful link between the IFRS results and non-IFRS measures used in the management commentary. Others think that the use of non-IFRS measures is confusing and can result in very complex reconciliations of segment information with the IFRS profit and loss.	Although we accept the comments made, the majority of respondents report that non-IFRS measures are rarely used except for proportional consolidation and in cases of disagreement with IFRSs. By contrast, the use of sub-totals not defined by IFRSs, such as EBITDA, is common in performance reporting and prevents comparison across entities. (See paragraph 47 for the effect of presenting internally defined line items.)

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Messages received	**Our suggested responses**
Measure at amounts attributable to shareholders Group structure is highly relevant to some analysts. These investors would like to know what proportion of the reported segment numbers is attributable to shareholders. They prefer segment reporting to be prepared on a 'proportionate share' basis, which makes it clear how much of each segment's results is attributable to the common shareholder.	It has been reported to us that some entities already provide this information voluntarily, but we are concerned that requiring this disclosure might deprive some investors of information about the individual operating segment as a whole and might also place an additional burden on preparers.
Use to disagree with IFRSs A few respondents think that non-IFRS information may be more useful to investors in depicting those transactions for which IFRS measurements are not thought by preparers to be appropriate to that entity's business model. These respondents note that in some jurisdictions segment information may not comply with IFRSs with regard to, for example, IFRIC 15 *Agreements for the Construction of Real Estate* or for transactions that are subject to rate regulation.	We are naturally concerned that some think that non-IFRS information may provide a better depiction of some transactions. The core principle of the standard, however, is that investors should be presented with the information used by management. Informing investors that management use non-IFRS measures is useful information in itself and the reconciliations to the IFRS line items will quantify how these bases differ.

Use of internally reported line items

47. The key messages received about the use of internally reported line items and our suggested responses to each are shown in the table below:

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 entities would no longer disclose their operating result disaggregated by business segment or that the definition of the profit or loss measurement used would be inconsistent with IFRSs. Others were concerned that they would not receive information about, for example, cash flows or working capital, analysed by operating segment.	
Messages received	**Our suggested responses**
Definition of 'operating result' Non-IFRS sub-totals of operating result are common in a number of jurisdictions and there are numerous different line items regularly in use. Operating results in the segment information are often reported using an IFRS measurement basis to which certain items are added or deducted to give an adjusted operating result such as operating profit before exceptional items or EBITDA.	This diversity is due, in part, to the lack of an IFRS definition of operating profit. We have identified performance reporting as a priority area in our work on the *Conceptual Framework* and are considering presentation of profit and loss generally as part of our general review of disclosure requirements.

<table>
<tr><td colspan="2">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 entities would no longer disclose their operating result disaggregated by business segment or that the definition of the profit or loss measurement used would be inconsistent with IFRSs. Others were concerned that they would not receive information about, for example, cash flows or working capital, analysed by operating segment.</td></tr>
<tr><td>Messages received</td><td>Our suggested responses</td></tr>
<tr><td>Reduction in some reported line items
Investors were concerned that some entities no longer report particular key line items, such as depreciation, gross margin and cash flow, by segment. Academic research confirms that there has been a decrease in the number of some key reported line items, especially in relation to segment liabilities and capital expenditure.</td><td>This is a difficult area to address. We accept the importance of some line items to investors but prescribing line items conflicts with both the core principle of IFRS 8 and messages we have received about disclosure overload. This is an area that warrants further investigation and we think that it is a potential candidate for consideration as a narrow-focus amendment to IFRS 8.</td></tr>
<tr><td>Support for internally reported line items
Some think that reporting only line items that are used internally results in improved quality of the reported amounts because the reported line items are not affected by allocations that may not be done on a systematic basis. Some investors also think that knowledge about what line items are used by management add insight to the understanding of the business and how it is managed. Preparers also report substantial cost savings.</td><td>These views confirm many of our expectations when we issued IFRS 8. When we issued IFRS 8 we thought that the use of internally reported line items would provide investors with greater insight into how the business is managed and would reduce the burden on preparers.</td></tr>
<tr><td>Investors’ requests for specific line items

Some investors think that the use of internally reported line items does not always provide them with the information they need to make comparisons across entities. Investors report that some line items have a special relevance to their decision making:

(a) non-cash expenses such as depreciation and amortisation;

(b) investing activities such as capital expenditure, marketing and research and development because this indicates the future direction of the business;

(c) impairment of goodwill in order to understand poor performance by some sectors and the outcome of acquisitions; and

(d) other line items that affect future cash flows.</td><td>Most investors would like us to mandate particular line items for disclosure. A few investors noted, however, that the importance of different line items varies by industry, eg research and development is very important for pharmaceutical entities but not for the construction industry. These investors think that we should not specify individual line-items in order to avoid creating non-relevant, boilerplate disclosures. This is an area that warrants further investigation and we think that it is a potential candidate for consideration as a narrow-focus amendment to IFRS 8.</td></tr>
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Disclosure requirements

48. The key messages received about the disclosure requirements of IFRS 8 and our suggested responses to each are shown in the table below:

Because each company's basis of segmentation will differ, the IASB ensured that IFRS 8 had a wide range of required disclosures. 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. In addition the entity is required to make a number of entity-wide disclosures about product lines, geographical information and customers.

Messages received	Our suggested responses
Adequacy of reconciliations—preparers Most preparers think that the requirements for reconciliations are clear and easy to comply with. A few preparers think that the reconciliations are complex and that the requirements are not clear. Some were confused about how to show the different elements of the reconciliation separately. Regulators complain that reconciliations are often poorly prepared and do not comply with the Standard.	We are concerned that a few preparers think that requirements are not clear and we note regulators' comments that preparers often do not comply with the Standard. We take part in an ongoing dialogue with securities regulators to identify issues about compliance and enforceability. We will consult with regulators to ask whether this is an area that warrants further investigation for consideration as a narrow-focus amendment to IFRS 8
Adequacy of reconciliations—investors Many investors find the reconciliations difficult to understand. They also think that they do not provide enough information to understand what the reconciling amounts represent or how the amount relates to each segment. Many investors have requested that reconciliations should be prepared segment-by-segment.	Because investors report that reconciliations are hard to understand and some preparers think that the requirements are not clear, we think that this is a potential candidate for consideration as a narrow-focus amendment to IFRS 8 Preparers and others have cautioned against a segment-by-segment reconciliation because they think that going against the key principle of management perspective would result in a need to allocate reconciling items to segments when there is no systematic basis on which to do so. In our view, non-systematic allocations would reduce the value of the segment information produced.
Aggregation criteria Many participants think that too much aggregation of operating segments takes place. Investors, in particular, think that segments are aggregated in a way that does not assist them in their use of valuation models. Many preparers and auditors think that determining when operating segments should be aggregated is difficult in practice. Participants also note that aggregation is an area that is subject to frequent regulatory challenges in some jurisdictions.	We acknowledge participants' concerns. Some have suggested that these concerns could be addressed by providing more guidance on what is meant by 'similar economic characteristics'. Others have suggested that the quantitative thresholds in the Standard conflict with the core principles of IFRS 8. We note, however, that the empirical evidence identified in the academic review shows that the number of reported segments has increased and the number of single-segment entities have decreased. Notwithstanding that, aggregation criteria are important in applying IFRS 8 and because of that we think this area warrants further investigation.
Geographical information Many investors would like to see a full segment analysis prepared on a geographical basis. They think that this information is important because economic conditions are not uniform worldwide. Other investors think that the existing geographical	We have received very mixed messages about the adequacy of geographical information provided. Some entities are managed on a geographical basis and so provide this information. In addition, it is reported that many entities voluntarily provide

information may not be useful if the identification of segments does not distinguish between different regions in a way that is useful for investors.	geographical disaggregation of segment information. Some think that the entity-wide disclosures of revenue by geographical region adequately addresses this issue. As we have received conflicting views about the adequacy of geographical information reported in accordance with IFRS 8, we do not think this area warrants any further action at this time.
Entity-wide disclosures Many participants think that entity-wide disclosures are poorly understood. Some see them as a supplement to replace the secondary disclosure requirements of IAS 14. Many think that entity-wide disclosures are inconsistently applied across entities and it is claimed that regulators frequently challenge the entity-wide disclosures made.	We accept that the disclosures required are difficult to systematise and are often not reviewed by the CODM We think, however, that they provide useful information to investors and consequently we do not think that this area warrants any changes at this time.

Implementation of IFRS 8

49. The key messages received about the implementation of IFRS 8 and our suggested responses to each are shown in the table below:

When we issued IFRS 8 we thought that the incremental costs for preparers of applying IFRS 8 would be low because the information reported about operating segments would be provided by existing internal reporting systems and processes.	
Messages received	**Our suggested responses**
Costs of implementation In general, most respondents report that implementation costs were not excessive. Preparers in particular report that there were few incremental cost of implementation.	This confirms our view when we issued IFRS 8 that application of the standard would not require excessive costs.
Ongoing costs Many preparers report significant reductions in ongoing costs because they now maintain only one set of reporting systems and processes. Regulators, on the other hand, think that the management perspective is a difficult approach to enforce because it is solely based on management's judgement to identify operating and reporting segments. Regulators in some jurisdictions report increased costs of enforcement.	We expected the costs of compliance to reduce following the application of IFRS 8. We are concerned, however, by regulators' comments.
Identification of CODM Many find it difficult to identify the CODM and some are uncertain at what level that role should be in an entity's management hierarchy. Respondents also debate whether the role is principally strategic or operational.	The practical difficulties associated with the identification of the CODM have been known for some time. This is primarily a one-time issue that arises when first applying IFRSs and consequently is of more concern to first-time adopters than in jurisdictions that currently apply IFRSs. In order to support first-time adopters, we recommend that the IASB consider reviewing this requirement as a potential candidate for consideration as a narrow-focus amendment to IFRS 8

Question 1
1. Do you: (a) think that we have identified all the key messages about the effect of implementing IFRS 8 that we received from the PIR of IFRS 8; (b) agree with the suggested responses; (c) have any further comments, for inclusion in the feedback statement?

Comparison with the findings of the US PIR

50. The stated objective of IFRS 8 was to achieve convergence with the requirements of FASB Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131). IFRS 8 is substantially converged with the requirements of SFAS 131, except for a few minor differences.

51. In December 2012 the Financial Accounting Foundation (FAF) completed its PIR of SFAS 131. The review of SFAS 131 was undertaken by an independent FAF team working under the oversight of the FAF Board of Trustees. The FAF's formal report on its PIR of SFAS 131 was issued on 14 January 2013. The key messages noted in the FAF's press release are included as Appendix A.

52. For convenience we have extracted the key messages from the FAF's press release and compared them with our draft feedback statement below:

    (a) There are indications that some companies (particularly those reporting only one segment) are not reporting a sufficient number of segments.

    In our feedback statement we note that investors have requested that segment data should be as detailed as possible. Academic research, however, indicates that there are now fewer single-segment entities and that there has been a small increase in the reported number of segments. The empirical evidence shows that the number of segments has increased compared with reporting in accordance with IAS 14.

    (b) Users would like more segment information (e.g., gross margin and cash flow).

In our findings we note that investors were concerned that some entities no longer report particular key line items, such as depreciation, gross margin and cash flow, by segment. In addition, academic research confirms that there has been a decrease in the number of some key reported line items, especially in relation to segment liabilities and capital expenditure.

(c) Some might like more consistency across companies in the amount, type, and measurement of information disclosed.

We have included some detailed comments about the type of reported line items and the way in which they are measured in the feedback statement above.

(d) The guidance for determining and aggregating operating segments might be difficult for some companies to apply.

In the draft feedback statement we record participants' reported concerns about the difficulty in identifying the CODM and in applying aggregation guidance.

(e) Some companies might be aggregating segments to reduce transparency because of competitive harm concerns or for other reasons.

Several respondents had concerns about the release of commercially sensitive information. This view was especially prevalent in jurisdictions with smaller capital markets, where many participants may be family-run entities, and with smaller entities generally.

(f) Both the costs and the benefits associated with Statement 131's required segment disclosures are consistent with the Board's and stakeholders' expectations.

We have included detailed comments in our feedback statement about the costs and benefits of implementing and applying IFRS 8.

53. We think that the overall messages that the FAF report are similar to those received in our PIR process, although the emphasis and context may differ. In particular, because our process is public and transparent, we are able to provide more detail when discussing the results of the PIR than the FAF can provide in

their report because their process is conducted on a confidential basis. In contrast, the FAF is limited in the details that it can make public and can only report general messages without giving specific examples or details of those affected.

54. Because of this some might think that there are more problems in implementing IFRS 8 than were encountered when implementing SFAS 131. Alternatively, some might have interpreted the greater detail discussed by the IASB as signifying that the FAF were not able to report all the issues that were identified by their PIR.

55. In Agenda Paper 12 C we compare our PIR approach with that of the FAF and comment on how differences in approach may affect the findings reported by the FAF and the outcomes of our separate PIR process. For example, concern reported to us by investors about the loss of trend data within individual entities when the basis of segmentation is changed, or investors' request for reconciliations to be prepared segment-by-segment, do not appear to have been identified as concerns in the FAF report.

Question 2

Are there any aspects of the FAF's findings that you think contradict our findings or that otherwise cause you concern?

A1. Appendix A—Extract from FAF Press Release dated 14 January 2013

The Statement 131 review team received input from investors and other financial statement users, as well as preparers, auditors, academics, and financial regulators. Based on its research, the review team concluded that:

- Statement 131 provides more information about companies' different business activities than the prior segment reporting standard did. In addition, companies' reported segment information is better aligned with their internal structures and more consistent with financial information reported outside the financial statements. However, there are indications that some companies (particularly those reporting only one segment) are not reporting a sufficient number of segments.
- Overall, Statement 131 enhanced the relevance of segment disclosures. Additional disaggregated information and improved alignment allows investors to understand the different types of activities in which a company engages and its prospect for future growth. Investors also use the improved segment information to make judgments about the company as a whole. However, reported segment information is not always sufficient for their investment decisions. Users would like more segment information (e.g., gross margin and cash flow), and some might like more consistency across companies in the amount, type, and measurement of information disclosed.
- In general, Statement 131's requirements can be understood, can be applied as intended, and result in reliable information. However, the guidance for determining and aggregating operating segments might be difficult for some companies to apply—in part because of advances in technology and the principles-based nature of the standard—and generates continuing discussions between preparers, practitioners, and regulators.
- Statement 131 did not result in any significant changes in operating or financial reporting practices, nor did it have any significant economic consequences. However, some companies might be aggregating segments to reduce transparency because of competitive harm concerns or for other reasons.
- Both the costs and the benefits associated with Statement 131's required segment disclosures are consistent with the Board's and stakeholders' expectations.

The Statement 131 review team concluded that the standard-setting process worked well overall and contributed to a successful standard, and had no significant standard-setting process recommendations.