STAFF PAPER

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IASB Meeting

Project	Post-implementation review IFRS 8 *Operating Segments*
Paper topic	Comment letter analysis and summary of outreach conducted

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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose

1. This paper summarises 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. In addition, the IASB and staff took part in more than 60 outreach activities in order to plan and develop the post-implementation review (PIR) process and to gather information about issues identified for investigation. This summary is based on the staff's preliminary analysis of comment letters as well as on information received from outreach activities.
2. This paper does not include any staff recommendations and the IASB will not be asked to make any technical decisions at this meeting.

Integration of messages received

3. The messages received are generally similar, whether they arise from outreach or through formal public consultation. Similarly, most messages are consistent across all geographical regions and types of participants. Where messages are specific to a given population this will be highlighted in the analysis.
4. Because messages are generally similar whatever the form the input takes, participants in either form of consultation are referred to as 'participants'

throughout the paper. When statistics or messages quoted relate only to the formal comment letter process, these participants are referred to as 'respondents'.

Structure of this paper

5. This paper is organised as follows:

    (a) background to IFRS 8;

    (b) overview of the comment letter respondents;

    (c) overview of outreach conducted;

    (d) key messages;

    (e) development of the PIR process;

    (f) responses to, and messages received about, the questions in the RFI;

    (g) views on the IFRS 8 PIR process; and

    (h) next steps.

6. For convenience, the questions asked in the RFI are summarised in paragraph 35 in this paper and appear in their entirety as an introduction to the section that analyses the messages received on that question.

Background to IFRS 8

7. The project to develop IFRS 8 was added to the IASB'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). As part of the project, the IASB identified the differences between the existing Standard IAS 14 *Segment Reporting*, and the FASB Statement of Financial Accounting Standard No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131). (SFAS 131 is now codified in Accounting Standards Codification Topic 280, Segment Reporting.) The IASB also reviewed academic research findings on segment reporting and held meetings with users of financial statements. The IASB decided to base its Standard on the requirements

of SFAS 131. IFRS 8 was issued in 2006, effective for periods beginning on or after 1 January 2009.

8. In issuing IFRS 8, the IASB made three key technical decisions:

   (a) segments would be identified based on the management perspective;

   (b) information disclosed would be measured on an internal basis; and

   (c) the line items reported would be those used by the chief operating decision maker (CODM).

Overview of the comment letter respondents

9. The RFI was issued on 19 July 2012 and the comment letter period ended on16 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**

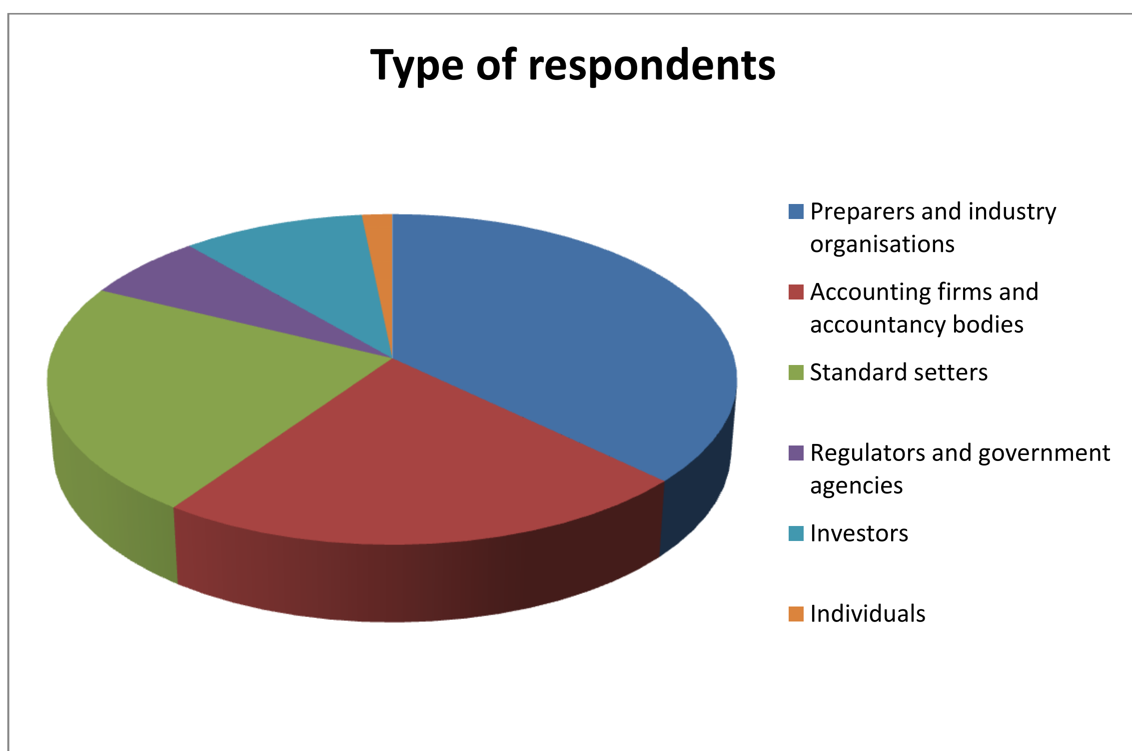
10. A diverse range of types of interested parties responded to the RFI.

   (a) Preparers are less frequently represented compared to some other public consultations. Various participants have suggested that this reluctance is due to either 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.

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

(c) 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, Paper 6B. Investors were also consulted through extensive outreach.

11. The analysis by type of respondents is shown in the graph below:

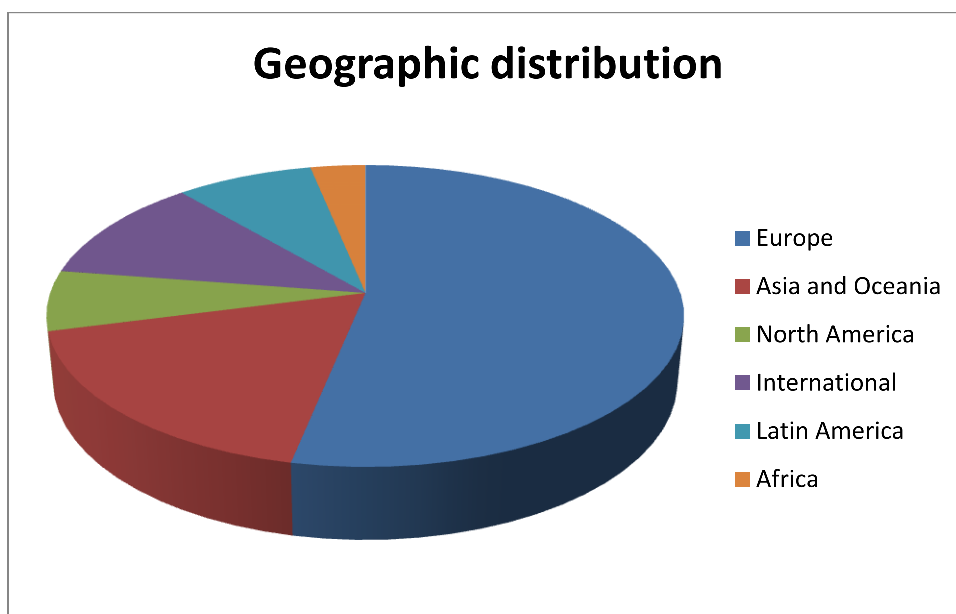


Geographical distribution of comment letter respondents

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**

12. 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.

13. The analysis by geographical region is shown in the graph below:



Overview of outreach conducted

14. 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.

15. 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.

16. 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	9	25
Investors	9	25
Standard-setters	7	19
Regulators and government agencies	6	17
Auditors and accounting firms	3	8
Total	**36**	**100**

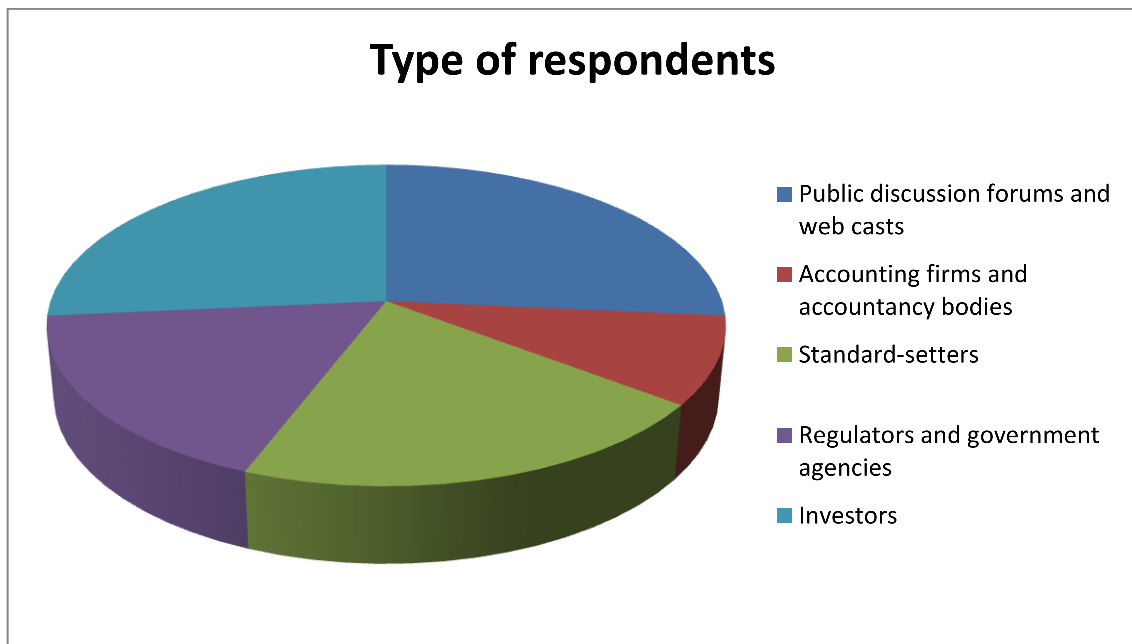
17. A number of formats were employed for this outreach, including webcasts, discussion forums, videoconferences and one-to-one interviews:

    (a) 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.

    (b) 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.

(c) 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.

18. The analysis by type of participant is shown in the graph below:

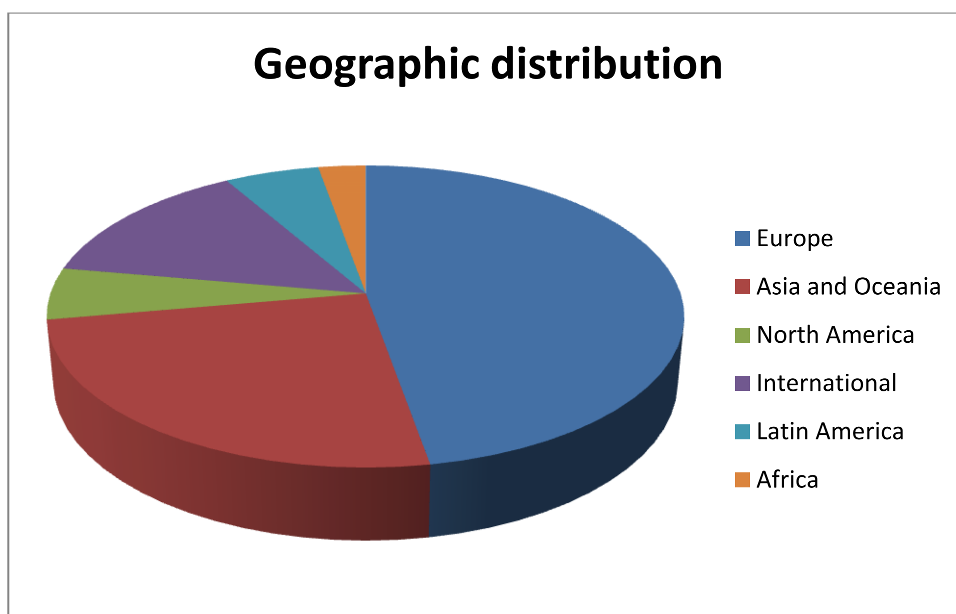


Geographical distribution of outreach conducted

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**

19. All geographical regions were represented in the outreach conducted. The geographical distribution of outreach conducted shows similar characteristics to that for comment letter respondents that was discussed in paragraph 12.

20. The analysis by geographical region is shown in the graph below:



Key messages

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

22. 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

23. 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, presumably 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.

(d) When the management commentary, the segment analysis and investor presentations align, the basis of segmentation is validated for all three. The alignment of segment information boosts investor confidence in the information presented and increases the value that investors place on each set of data.

(e) Investors were concerned at the number of different, non-IFRS bases used for reporting operating results because this greatly reduced comparability between entities.

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

(g) The concept of the CODM was difficult to understand and to implement.

(h) Many think that the aggregation guidance is complex and difficult to apply. In addition, many are concerned that it results in the aggregation of dissimilar operating segments.

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

24. These messages, and others, are discussed in more detail in the detailed analysis in this paper.

Findings from academic research

25. 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. Those 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.

26. The findings from academic research are discussed in greater detail in Paper 6B. Where messages received through outreach or in response to the RFI reinforce or contradict results in academic research this will be highlighted in this paper.

Development of the PIR process

27. In 2007 the Trustees added the need to carry out a PIR to the due process requirements of the IASB. IFRS 8 is the first Standard to be subject to a PIR.

28. In quarter 1 of 2012 we discussed the proposed PIR process with a number of stakeholders such as local and regional standard-setters, regulators, accounting firms and the IFRS Advisory Council. As a result of this consultation the Trustees proposed revising the *Due Process Handbook* of the IASB with respect to three aspects of the PIR process:

(a) scope of the review,

(b) timing of the review, and

(c) transparency of the review process.

Scope of the review

29. The original *Due Process Handbook* limited the PIR process to investigating those items that were contentious during the Standard's development, identifying problems that arose on implementation and conducting a review of unexpected costs incurred on implementation.

30. When developing the PIR process in Q1 of 2012, we became aware that many participants believe that the PIR should answer wider questions such as: was the objective of the IFRS achieved? And does the Standard further the objectives of financial reporting? A few warned that it may be difficult to restrict the PIR to an evaluation of the implementation of the Standard. The Trustees acknowledged that the scope of the PIR could be broadened to explore whether the Standard had also achieved an overall objective of improving financial reporting and included this proposal in their revised *Due Process Handbook*.

Timing of the review

31. Participants in the planning phase expressed differing views on the timing of PIRs. A general view is that when assessing the Standard's effect, two years after the effective date is too early because insufficient financial reporting will have occurred before the PIR takes place. Others thought that two years would be too late because many would have forgotten the implementation processes or difficulties involved. A common suggestion was for 3-5 years. We decided to commence the review two years from the date of global application which, allowing for the different reporting dates around the world, is closer in practice to three years after the effective date. We will review the appropriateness of this timing after completion of this PIR.

Transparency of the review process

32. Many suggested that the IASB should seek broad input through a comment letter process, including a public analysis of the information received. This would allow for any decisions made or actions taken as a result of the PIR to be done in a transparent manner. The advice from most participants at the planning stage was that the process needs to be open to frank debate and to rigorous analysis of the information received. The Trustees agreed with this advice and proposed revising the IASB's *Due Process Handbook* to require a public consultation phase that would provide the IASB with the evidence it needs on which to base decisions about future possible standard-setting actions for IFRS 8.

Revised Due Process

33. The Trustees' revised approach to PIRs was developed in 2012 to reflect these views. The IASB's current PIR methodology is now contained in the Invitation to Comment on the *Due Process Handbook* that was issued for public comment in May 2012. The analysis of the comment letters received on the proposed changes to the *Due Process Handbook* was presented to the Trustees in November 2012. The proposed revisions, which form the basis for the PIR process used for IFRS 8, were generally approved by respondents. It is expected that the IFRS Foundation's revised *Due Process Handbook* will be issued without alteration with respect to PIRs in the first half of 2013.
34. Participants in the PIR of IFRS 8 generally supported this revised methodology for PIRS but provided some additional comments as a result of their experience with the PIR of IFRS 8. Additional comments and suggestions about how the process could be refined for subsequent PIRs are included in paragraphs 166-179.

Responses to, and messages received about, the questions in the RFI

35. We asked six questions in the RFI:
    (a) Q1 A request for information about the respondent.
    (b) Q2 What is your experience of the effect of the IASB's decision to identify and report segments using the management perspective?
    (c) Q3 How has the use of non-IFRS measures affected the reporting of operating segments?
    (d) Q4 How has the requirement to use internally-reported line items affected financial reporting?
    (e) Q5 How have the disclosures required by IFRS 8 affected you in your role?
    (f) Q6 How were you affected by the implementation of IFRS 8?

Q1 information about the respondents themselves

Quest ion 1

Are you comparing IFRS 8 with IAS 14 or with a different, earlier segment-reporting Standard that is specific to your jurisdiction?

In providing this information, please tell us:

(a) what your current job title is;

(b) what your principal jurisdiction is; and

(c) whether your jurisdiction or company is a recent adopter of IFRSs.

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

36. There are two aspects to the PIR process, a comparative assessment and an absolute assessment.

Comparative aspect

37. Most participants assess the effect of implementing IFRS 8 by comparing it with the previous Standard about segment information, IAS 14, and their assessment of the effect that IFRS 8 had on financial reporting was based on that comparison.

38. It was noticeable that participants' interest in taking part in the public consultation was not affected by whether or not they had previously used IAS 14. Segment information is an important aspect of financial reporting whatever the region or financial reporting regime. Some potential participants had not previously prepared financial statements in accordance with IAS 14, but they were still interested in providing information to us about the effect that implementing IFRS 8 had on financial reporting. In order to understand their comments about improvements to financial reporting, we needed to ask what their comparative segment standard was.

39. We asked comment letter respondents to tell us whether they were comparing IFRS 8 with IAS 14, SFAS 131 (or equivalent) or another standard. Over 75 per cent of respondents have previously reported in accordance with IAS 14. 10 per cent of respondents used a standard based on SFAS 131, which is substantially converged with IFRS 8. The remaining respondents either did not

state what standard had applied previously or regularly reviewed financial statements prepared in accordance with either IFRS 8 or SFAS 131.

40. We also asked respondents about their current role and reporting jurisdiction.

Absolute aspect

41. Many participants did not approach the PIR process as a comparative one. They considered the requirements of IFRS 8 in absolute terms—what are the characteristics of segment reporting prepared in accordance with IFRS 8? They approached the PIR process by telling us what they liked and disliked about the Standard, irrespective of the change from IAS 14.

42. This was particularly true for investors who may not know whether the financial statements under review are prepared in accordance with IFRS 8 or SFAS 131 (or another Standard) and who often compare financial statements prepared in accordance with IFRSs with financial statements prepared in accordance with other accounting requirements.

Q2 Effect of using the management perspective as the basis of segmentation

43. The first technical question posed in the RFI is about the key decision to require that operating segments are identified based on the management perspective.

Question 2

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

Investors: please focus on whether our initial assessment—that the management perspective would allow you to better understand the business—was correct. What effect has IFRS 8 had on your ability to understand the business and to predict results?

Preparers: please include information about whether your reporting of operating segments changed when you applied IFRS 8. If it did, what effect did that change have on the efficiency of your reporting processes and your ability to communicate with investors?

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

(a) Companies would report segments that correspond to internal management reports. This would allow investors to view a company's operations from the same perspective as management and this would

provide investors with more relevant information about the company's performance.

(b) Companies would report information that is more consistent with other parts of the annual report, such as the management commentary.

(c) Some companies would report more segments, improving the detail of the financial information provided.

(d) There would be fewer entities that report a single segment.

(e) Segment reporting would be less burdensome on preparers because only one segment reporting process would be required for both internal and external reporting.

(f) Companies would be able to report more segment information in interim financial reports.

45. The IASB was also aware of some concerns, which had been raised when IFRS 8 was first exposed for public comment, about the use of the management perspective for identifying segments:

(a) There would be a lack of comparability between entities because each entity would use its own management structure.

(b) There would be a loss of trend information within individual entities if an entity underwent frequent internal reorganisations.

General messages on the management approach

Overview

46. Most participants think that the Standard has resulted in the benefits expected by the IASB, but participants have also identified some concerns about the effect of implementing IFRS 8. The messages received about the basis of segmentation are summarised by type of participant.

Preparer perspective

47. Preparers generally confirm that segment reporting is now less burdensome and that they have achieved significant ongoing cost savings as a result of the increased efficiency in combining internal and external reporting processes for segment reporting. Many preparers also think that their communication with investors has been improved because the results announcement and management

commentary, both of great importance to investors, are now more likely to agree with, and cross-validate, segment information in the audited financial statements.

Auditor perspective

48. Auditors report two main practical problems in implementing IFRS 8 that arise from the basis of segmentation. These are the problems many encountered when trying to identify the CODM and practical difficulties in applying the aggregation guidance. Both topics are discussed later in this paper.
49. Auditors also report tensions in agreeing reported segments with their clients because of client concerns about the commercial sensitivity of the information produced. (See paragraphs 66-69.)

Usefulness to investors

50. Investors' views about the effect on financial reporting of applying the management perspective for identifying segments varied.
51. 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. In addition, the fact that the IFRS 8 information is audited increases the value that investors attribute to the other sources of consistent information that is reported by segment.
52. On the other hand, some investors are suspicious 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 or to mask loss-making activities within individual segments.
53. This disparity of views was subject to some geographical variation. The variation in response may be due, in part, to perceived differences in corporate culture or variations in the robustness of local regulators.
54. Investor responses about the effect of implementing IFRS 8 were often based on an absolute assessment of the qualities of segment reporting, rather than a comparative assessment identifying whether IFRS 8 represented an improvement or disadvantage compared with IAS 14. This is because, although investors are

knowledgeable about what is reported, they are not necessarily familiar with the underlying Standard requiring entities to report that information.

55. When IFRS 8 was exposed for comment in 2006 investors had predicted some potential weaknesses in financial reporting after the implementation of IFRS 8:

(a) Reduction in geographical information

Because IAS 14 required that geography should form the basis for either the primary or secondary segmentation of any entity, many investors thought they would lose important geographical information. Information about the effect of IFRS 8 on geographical information shows a range of views. (See paragraphs 104-115.)

(b) Lack of trend data

Many investors were concerned that basing segmentation on management's perspective would be susceptible to frequent changes to reported segment information if there were frequent changes to internal structure. This would result in a loss of trend information within a single entity. We are not aware of any research about whether entities have changed their reported segments more frequently since the implementation of IFRS 8. We have received from participants, however, many examples of entities that have changed their segments from year to year since the implementation of IFRS 8.

IFRSs require that the comparative is restated whenever there is a restructuring, but some investors have suggested that we should require additional numbers of comparative periods for operating segment information because of the importance of this trend information. The number of comparative periods they suggest varies between 3 and 5 years.

(c) Lack of comparability between entities

Many investors complain that they cannot compare the reported segments of one entity with an equivalent reported segment within another entity. However, some accept that this could also be the case when entities prepared segment information in accordance with IAS 14 because the components of different groups vary considerably:

> Based on our observation, there is a lack of consensus over the issue of comparability of financial statements. There is a concern expressed by investors about lack of comparability between entities in the same business sector, but some agree that comparability between two different entities could not be achieved because of differences in product lines, group complexity and the manner of organisation. *Asian-Oceanian Standard-Setters Group*

Investors would like a reported segment to be at a level that is directly comparable with a stand-alone business. While this is rarely achieved in practice, it is more likely if the number of reported segments is greater. The information received from most participants, and from the academic review in Paper 6B, is that the number of reported segments has either remained the same or increased following the application of IFRS 8. Similarly, the number of entities reporting only a single segment has decreased. However, the greater number of segments has not been sufficient to give investors the degree of comparability that they need.

Investors note that it is more difficult to compare the operating performance of different entities following the application of IFRS 8 because many entities now report internally-defined measures of operating profit. These measures can vary considerably between entities and make comparison difficult. This is discussed in paragraphs 89-99, which discuss the effect of reporting the line items used by the CODM.

56. Some investors also noted that operating segment information is also compared with external data such as official statistics to enable them to understand the effect of underlying economics on the various components of the entity.

Regulator perspective

57. Some participants think that a standard based on the management approach is not as easy to both enforce and audit because of the degree of subjectivity in its implementation. The most common example of this concern was when the

segment information prepared in accordance with IFRS 8 was inconsistent with the way that management describe the business in the management commentary or in the financial results presentation. One regulator reports that they have had to expand their examination activities as a result.

Other messages received

58. We received a number of messages, across a range of participants, about five aspects of segmenting operations using the management perspective. These messages are discussed under the following topics:

    (a) no significant change in reported segments;

    (b) link with the management commentary;

    (c) commercial sensitivity;

    (d) segmentation anomalies; and

    (e) link with IAS 36 *Impairment of Assets.*

No significant change in reported segments

59. About a third of respondents noted that reported segments did not change for a number of entities on the implementation of IFRS 8 in their jurisdiction. Many think that this is because preparers had already adapted their internal reporting systems and processes to match with IAS 14's requirements for segment presentation. A few participants think this lack of change is disappointing:

> This could be interpreted as a disappointing finding since IFRS 8 set out to fundamentally change the way entities report operating segments and the evidence suggests that many companies simply continued to report in the same way as before. One possible reason put forward by users was that flexibility when defining through whose eyes the decisions are being made, can lead to entities continuing to report operating segments on the same basis as they had done previously. *Financial Reporting Council, UK*

Link with the management commentary

60. In proposing the use of the management perspective, the IASB recognised that there is a clear link between the management commentary and segment

information. An expected benefit of this approach was that the management commentary and segment information would be aligned, thereby improving investors' understanding of the entity's performance.

61. Many participants think that requiring the management perspective in accordance with IFRS 8 has resulted in the alignment of these two sets of information. Participants in many jurisdictions also report that segment information, management commentary, presentations to investors and results announcements are all more closely aligned and that alignment increases the information value of each.

62. Some investors think that the information disclosed by the segment note is often not detailed enough to allow them to fully understand the business and to predict future earnings and cash flows. These investors think that the additional information provided by some entities in the management commentary has more analytical value for investors. If the management commentary is based on a detailed business structure that is consistent with the reported segment information, that consistency cross-validates both the segment note and the management commentary. Investors think they can place greater reliance on the management commentary because it is consistent with the audited segment information.

63. On the other hand, in those cases in which the management commentary and the segment information are prepared on different bases, both investors and regulators expressed concern at the discrepancy. Some regulators specifically targeted entities where the 'front and back halves' are prepared on different bases. Because of frequent challenges by regulators, participants in some jurisdictions think that the management commentary is now more often consistent with the segment information in the financial statements than when IFRS 8 was first implemented.

64. One participant (*South African Institute of Chartered Accountants*) notes that as the International Integrated Reporting Committee develop a more integrated view of financial reporting, that committee should consider whether segment information should appear in the financial statements or only in the management commentary.

65. Another participant has suggested that the link between the management commentary and segment information has resulted in guidance from some

regulators that requires some entities to use non-IFRS measures in their segment information in order to agree with measures used in the management commentary.

Commercial sensitivity

66. IFRS 8 does not include an exemption from disclosure on the grounds of commercial sensitivity. Several respondents (about 20 per cent) and outreach participants 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. These participants argue that segment reporting under IFRS 8 is unfair to those entities whose reportable segments compete in the market with the divisions of much larger entities that can aggregate those divisions within reportable segments.
67. Entities that supply the defence industry were also thought to have a commercial disadvantage. In this case, the entity may have a single customer, or very few customers, and the disaggregation required by IFRS 8 may give their competitors access to commercially sensitive information—in some cases down to an individual project level.
68. Some participants suggested that entities affected in this way would provide suboptimal disclosures in order to preserve their commercial advantage. These participants think that IFRS 8 should be reviewed to include a competitive harm exemption.
69. One respondent (*New Zealand Accounting Standards Board*) raised this concern in terms of the scope of the Standard. Paragraphs 2 and 4 of IFRS 8 limit the operating segment disclosures required to entities whose debt or equity are traded or that file financial statements for the purposes of issuing instruments in a public market. The respondent is concerned that a small proportion of entities in their market are required to make greater disclosures than other entities that also apply IFRSs. They think that the limited scope of IFRS 8 creates an uneven playing field when listed and non-listed entities are operating and competing in the same market.

Segmentation anomalies

70. A few respondents think that the definition of operating segments now includes activities that do not directly earn revenue, such as research and development, because paragraph 5 of the Standard says the segment "may earn" revenue. One respondent thinks that this is a significant improvement to financial reporting because entities no longer have to allocate these expenses across revenue-earning segments. Another respondent argues that this is too broad an interpretation of "may earn" and that non-revenue-generating activities should be excluded from the definition of operating segment by clarifying what is meant by "may earn".

Link with IAS 36 Impairment of Assets

71. IFRS 8 and IAS 36 are linked by paragraph 80 of IAS 36, which states that the unit of account for the impairment testing of goodwill (the cash-generating unit (CGU) or group of CGUs) shall not be greater than an operating segment, as defined by IFRS 8. Some participants were concerned that this link would result in management revising their reported perspective to ensure that fewer operating segments were identified in order to avoid recognising an impairment of goodwill. This is because testing goodwill for impairment at a higher, aggregated level is less likely to result in the recognition of impairment as profitable activities within the CGU can compensate for loss-making activities.

72. Other participants think that the IFRS 8 / IAS 36 link is beneficial because the size of the CGUs, or group of CGUs, is constrained and is effectively capped by the size of operating segments identified. In their view, this could result in the earlier recognition of impairment losses.

73. A few participants requested that impairment of goodwill recognised in an accounting period should be separately disclosed and allocated to the segments to which it relates. Outreach conducted with investors reinforced this message. Investors requested that goodwill recognised as impaired should be a required reported line item in IFRS 8

74. Some participants, particularly in Asia, suggested that IAS 36 itself should be subject to a PIR.

Q3 Effect of using non-IFRS measurement bases

Question 3

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

Investors: please comment on the effect that the use of non-IFRS measurements has had on your ability to understand the operating risks involved in managing a specific business and the operating performance of that business. It would be particularly helpful if you can provide examples from published financial statements to illustrate your observations and allow us to understand the effects that you describe.

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

75. When we issued IFRS 8, we thought that the use of internally reported measures would highlight the risks that management face every day. For example, some line items might be measured at constant exchange rates if this risk is not managed at the operating segment level. Other entities might measure components of costs using standard, rather than actual, costs where these costs are not the responsibility of segment managers. Our assessment was that this emphasis on the managed risks reported to the CODM would give investors a greater understanding of how those risks are managed.

General messages on the use of internal measures

76. Some participants 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. Non-IFRS measures may be used to exclude those types of transactions that are not the responsibility of segment management (eg exchange rate management or hedging) or to exclude volatile items that are, in management’s view, independent of operating trends, such as fair value adjustments. One respondent notes that non-IFRS measures may also be used instead to increase comparability between domestic and overseas segments or between time periods.

77. Many investors, however, think that non-IFRS measures can be confusing or misleading. Some preparers also do not think that using non-IFRS measures is helpful:

> We believe that the requirements to measure reported line items in accordance with certain internal reporting

> protocols is not appropriate, particularly since this could result in non-GAAP figures that are not reconcilable simply and in disclosures that would result in current year information changing when it becomes the comparatives.
> *CBI UK*

78. Most participants think that, if used, non-IFRS measures need to be clearly explained. One respondent (*Eumedion Corporate Guidance Forum*) suggested that whenever a reported line item is measured on a non-IFRS basis, it should be described as 'adjusted'.

79. Despite this discussion of the advantages and disadvantages of using non-IFRS measures, the majority of participants think that these measures are rarely used in practice, apart from three exceptions.

    (a) Non-IFRS definition of operating profit

    Many participants note that operating results in the segment information is often reported using an IFRS measurement basis, to which certain items are added or deducted, to give an adjusted operating result such as EBIT or EBITDA. This is discussed in paragraphs 89-98 as part of the responses to our question about reporting internally-defined line items.

    (b) Proportional consolidation

    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.

    (c) Disagreement with IFRS requirements

    Some respondents think that non-IFRS information may be more useful to investors in depicting those transactions where 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 subject to rate regulation. A few participants note that although they do not use non-IFRS measures at present, they might use them in the future if proposed changes to IFRSs, for example for revenue or leases, do not , in their view, provide a fair depiction of their operations.

Q4 Effect of reporting line items used by the CODM

> **Question 4**
>
> **How has the requirement to use internally-reported line items affected financial reporting?**
>
> Investors: please focus on how the reported line items that you use have changed. Please also comment on which line items are/would be most useful to you, and why, and whether you are receiving these.
>
> Preparers: please provide information about any changes in reported line items that resulted from the application of IFRS 8.

80. 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 if analysed by operating segment.

General messages on the effect of reporting line items used by the CODM

81. IAS 14 provided a list of specific items for disclosure for primary and secondary segments. IFRS 8 provided a smaller list of items along with the requirement to disclose those line items that are used by the CODM. Consequently, which line items are now disclosed has changed substantially for some entities. In addition, many different definitions of operating result are now reported, which prevents profit comparisons, by segment, across entities. These issues are discussed in more detail in paragraphs 84-88-and 89-96 respectively. (See also Paper 6B for quantitative information about the overall decrease in the number of reported line items.)
82. Many preparers found that identifying which line items were routinely used by the CODM was difficult to do when implementing IFRS 8. (This is discussed in more detail in paragraph 159.)

83. Once line items are identified, however, many participants support reporting only those line items routinely used by the CODM:

(a) Participants think that such an approach is more consistent with the core principle of the Standard—to look at segment information from the management perspective.

(b) Preparers report substantial cost savings because they only report line items that are routinely analysed by segment—the requirement to report some line items merely to comply with IAS 14 had been burdensome to many preparers.

(c) Some respondents also think that the quality of the reported segment information has improved because line items that are not managed or reported by segment are no longer artificially allocated over segments to comply with reporting requirements.

(d) Some investors welcomed disclosure of those items that are reviewed by the CODM because knowing what the CODM monitors adds insight to investors' understanding of the business and how it is managed. In their view, use of CODM line items also results in the disclosure of more relevant information and often also results in additional information being available such as industry-specific key performance indicators (KPIs), order information or sales volume information. However, these investors think that this additional information needs to be reconciled to IFRS amounts, where applicable, to be useful. (See 128-131 for more discussion about reconciliations.)

Reduction in number of key reported line items

84. The number of reported line items has not necessarily decreased but some key line items, such as segment liabilities, operating cash flows and capital expenditure, are no longer disclosed by some entities. Information about assets and liabilities, in general, is frequently omitted because full statements of financial position are not always prepared by operating segment. Cash flow information may also be omitted. There is also evidence that there is significant variation between entities as to which line items are disclosed, making comparison between entities difficult.

85. Many investors are concerned about the change in the line items analysed by operating segment. These investors complain that not enough information is now provided to support their analytical work. This information is required in order for them to value individual segments, calculate returns on capital employed and for cash flow modelling.

86. In addition to information about operating assets and liabilities, investors also need segmental information about:

    (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.

87. 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. In their view, very few line items apart from revenue, operating profit, depreciation and capital expenditure are universally relevant to all industries. These investors think that we should not specify individual line-items in order to avoid creating non-relevant, boilerplate disclosures.

88. Preparers generally do not agree with mandating any line items, because they think that this conflicts with the core principle of the Standard and because preparing some of the information would be burdensome for them. Many preparers disagree with the requirements of paragraph 23 of the Standard, which mandates specific line items, for that reason. Preparers are also concerned, in some cases, about losing competitive advantage if some line items are disaggregated by segment. (See also paragraphs 66-69 about commercial sensitivity.)

Internally-defined operating result

89. Non-IFRS definitions 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 EBIT or EBITDA. The European Federation of Financial Analysts Societies, referring to research by their member organisation, SFAF, notes 15 different definitions of operating result such as operating profit before exceptional items or EBITDA. In some examples submitted to us, some entities reported two or more non-IFRS measures of operating profit. (See also paper 6B for this and other research on this topic.)

90. Many participants think that this diversity is due, in part, to the lack of an IFRS definition of operating profit and that the IASB should address the topic of performance reporting as a priority as part of its *Conceptual Framework*.

Preparers' perspective

91. Preparers use these internally-defined profit figures because those figures include the risks that are managed by segment and exclude factors that are not managed by segment or arise from non-recurring transactions. They think that these internally-defined profit figures provide a better representation of how the business is managed.

92. Using internally-defined profit figures means that segment reporting in the financial statements is consistent with how management monitor the business and with the discussion of operating segments in the management commentary. The segment information will also be consistent with the results announcement and related presentations, which is the key communication with investors for many preparers.

Investors' perspective

93. Investors' views on the use of internally-defined operating profit figures are mixed.

94. Many investors are suspicious when adjusted line items are used because the measure often excludes some charges and may overstate segmental profits. In addition some entities may use a number of different performance measures making it difficult to decide which is more relevant. Some participants indicated

to us that in some cases the definition of the performance measure differs between segments. Investors also find that reconciliations of the non-IFRS profits to IFRS amounts are not provided by a significant number of entities. All investors think that whenever non-IFRS line items are used they need to be clearly explained and defined.

95. Other investors welcome the use of internally-defined line items because they link the IFRS results with the management commentary and results announcement and provide insight into how the business is managed. Being able to reconcile information in the management commentary and results announcement with information in the audited financial statements increases the value to investors of that information. Some investors also prefer operating results to exclude exceptional or non-recurring items in order to identify trends in the entity's underlying profits.

96. The majority of investors, however, agree that the use of internally-defined line items to report segmental operating results mean that it is often not possible to compare the operating results of one entity by segment with those of another entity. Investors also say that because of the lack of comparability of reported results between entities they find it difficult to apply valuation techniques that are based on the use of industry multiples to calculate business enterprise values.

97. For these reasons, a number of investors would like the items for which results are adjusted to be separately disclosed in order that investors could make these adjustments themselves. Common adjusting line items include:

    (a) exceptional items;

    (b) depreciation;

    (c) amortisation;

    (d) goodwill write-offs; and

    (e) results of joint ventures or associates.

98. Some investors think that the segment disclosures should show all line items in the IFRS profit and loss.

99. Nearly all investors think that it is now more difficult to calculate gross margin and gross margin percentage by segment, which reduces the value of segment information to them.

Q5 Effect of required disclosures

Question 5

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

Investors: please provide examples from published operating segment information to illustrate your assessment of the disclosures relating to operating segments. Do you now receive better information that helps you to understand the company's business? Please also comment on the specific disclosure requirements of IFRS 8—for example, those relating to the identification and aggregation of operating segments; the types of goods and services attributed to reportable segments; and the reconciliations that are required. It would also be useful to indicate whether you regularly request other types of segment disclosures.

Preparers: please consider whether operating segment disclosures are more or less burdensome when based on information prepared in accordance with your own internal reporting requirements. If any requirements are burdensome, please provide details of those disclosures and explain why they are costly or time-consuming to prepare. Do you think that the information you present now about operating segments conveys better information to investors and shareholders? It would be useful to indicate whether you regularly report any segment information in addition to that required by IFRS 8.

100. Because each company's basis of segmentation will differ, the IASB ensured that IFRS 8 had a wider range of required disclosures. This included disclosure, for example, about each company's individual segmentation basis. Each company is required to disclose general information about factors used to identify reportable segments and information about the types of products and services from which each segment derives revenue. In addition the entity is required to make a number of entity-wide disclosures about product lines, geographical information and customers.

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

Overview of responses to Q5

102. Generally preparers think that the disclosure requirements of IFRS 8 are not burdensome except for the entity-wide disclosures as discussed in paragraphs 132-138 of this paper.

103. Other participants have raised a number of issues relating to the disclosure of information in accordance with IFRS 8:

    (a) the reduction in geographical information compared with IAS 14;

(b) aggregation of data that results in operating segment information that is not detailed enough to allow investors to fully understand the business and predict future results and cash flows; and

(c) concerns about the adequacy of reconciliations presented.

Reduction in geographical information

104. IAS 14 required segments to be identified on the basis of the products and services provided ('product basis') and the economic environments in which the company operated ('geographical basis'). One basis was designated the primary basis and the other termed a secondary basis. Both bases had mandated line items specified for disclosure.

105. IFRS 8 requires operations to be reported using the management perspective. Reported segments can be either based on products, geographical regions or a matrix of the two. When IFRS 8 was issued many constituents were concerned that sufficient geographical information would no longer be disclosed.

106. The messages received from participants on this topic are not clear.

107. 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 world-wide:

> In our view, the management perspective is useful but not sufficient; in particular, it ignores geographical segments, which we consider to be very important for valuation purposes, as economic conditions are not uniform worldwide. For example, Africa, Asia Pacific, Australia, Canada, China, EU, India, Japan, Latin America, Middle East, Russia and the United States have very different current financial outlooks and their local currency fluctuations, risk free rates and Equity Risk Premiums vary significantly. *International Association of Consultants, Valuators, and Analysts*

108. Other investors think that the existing geographical information may not be useful if the identification of segments does not distinguish between different regions in a way that is useful for investors. In their view, the distinction between identified regions should be based on those regions with similar economic characteristics

rather than physical proximity. In their view, if the basis of disaggregation does not reflect how the business is actually managed it does not provide useful information to investors.

109. A few investors have suggested that analyses by both origin and destination of the goods or services provided would be useful. A few participants have also reported that they use geographical analyses to understand the entity's taxation strategy.

110. Some investors think that the matrix basis of segmentation (based on a mixture of geographical regions and products) is particularly difficult to understand. A few investors also think that this type of reporting structure is also especially prone to reorganisation because a reorganisation of either product or geographical management lines could result in a change to identified segments.

111. Some investors suggested that a two dimensional analysis, with both product and geographical regions as axes, should be required for certain key line items such as revenue and operating profit.

Availability of geographical information

112. Some participants think that many entities still provide adequate geographical information after implementing IFRS 8. Many entities are managed by geographical region and so this information will be still be available when segments are identified using the management perspective.

113. Some preparers also report that they voluntarily provide an analysis by geographical region because investors frequently request that information. Some preparers continue to provide a geographical analysis because that process had been systematised when they reported in accordance with IAS 14 and therefore it requires little additional effort.

114. Some participants think that additional useful geographical information, in excess of that required by IAS 14, is provided in accordance with the disclosure requirements of IFRS 8 because of the entity-wide disclosures that include information about customers.

115. See also paper 6B for quantitative information about the amount of geographical information reported in accordance with IFRS 8.

Aggregation

116. Aggregation has a significant impact on how operating segment information is presented.

(a) 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. They would like segments to be reported at a level that corresponds to a business that can be valued independently. Many investors think that aggregation of operating segments contributes to an increase in the lack of comparability between different entities.

(b) Many preparers and auditors think that determining when operating segments should be aggregated is difficult in practice:

> Application of the aggregation criteria also creates challenges in practice as it can be difficult to determine whether operating segments are similar enough to aggregate. The requirement for two operating segments to display similar economic characteristics can be particularly difficult to apply and leads to some diversity in interpretation as the standard does not explain which characteristics should be considered. *PricewaterhouseCoopers*

(c) Participants also note that aggregation is an area that is subject to frequent regulatory challenges in some jurisdictions. Some regulators are sceptical about whether the aggregated segment information reported by some entities reflects the detailed internal management information used in making decisions. Regulators also think that disclosures about whether segments had been aggregated, which is required by paragraph 22 of the Standard, are often poorly complied with in some jurisdictions.

117. There are three aspects of aggregation that cause concern:

(a) criteria for aggregation;

(b) thresholds for aggregation; and

(c) conflict with the core principle of the Standard.

Criteria for aggregation

118. Paragraph 12 of the Standard explains the criteria for aggregation:

> Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this IFRS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:
>
> the nature of the products and services;
>
> the nature of the production processes;
>
> the type or class of customer for their products and services;
>
> the methods used to distribute their products or provide their services; and
>
> if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

119. Many participants think that these criteria add complexity to the application of the standard. Some participants think that these criteria are so strict that, if they were adhered to, aggregation would not be possible in practice. Others think that these criteria are subjective and judgemental and that the application of the requirements in paragraph 12 of the Standard varies significantly in practice.

120. Of particular difficulty is a perceived lack of guidance to ensure consistent and objective interpretation about what constitutes similar economic characteristics for the purposes of segment aggregation. Some suggest that including examples would provide useful guidance. Others complain that there are no stated indicators against which to assess similarity because the Standard only refers to similar long-term margins as one such characteristic. Some participants suggest including specific indicators such as:

(a) revenue growth;

(b) currency risk;

(c) rate of inflation; and

(d) market and competitive regulations.

Qualitative thresholds

121. Many participants also think that the detailed guidance on qualitative thresholds in paragraphs 13-19 of the Standard is unhelpful, in particular paragraphs 13-15 which say:

> Quantitative thresholds
>
> 13 An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:
>
> Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
>
> The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
>
> Its assets are 10 per cent or more of the combined assets of all operating segments.
>
> Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.
>
> 14 An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable

> segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 12.
>
> 15 If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 13) until at least 75 per cent of the entity's revenue is included in reportable segments.

122. Many participants think that this list of mandatory thresholds is not consistent with the principle-based approach of IFRS 8. They see no conceptual basis, for example, for the 10 per cent threshold in paragraph 13 of the Standard and would prefer disclosure to be required when an operating segment is material.

Conflict with the core principle of the Standard

123. Many participants also think that paragraph 15 is especially unhelpful because it contradicts the core principle in paragraph 1 of IFRS 8:

> 1 An entity shall disclose information to allow users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

124. In their view, operating segments are identified in accordance with this objective, using the guidance in paragraph 5, but that basis is then obscured by the aggregation required to comply with paragraph 15 of the Standard.

Additional guidance and disclosure requirements

125. Some participants request additional guidance, especially concerning "similar economic characteristics", and note that one standard-setter, the Canadian Accounting Standards Board, has issued local guidance to address concerns about inappropriate aggregation.

126. Others suggest a need for additional disclosures. These participants think that there is a significant amount of judgement required to apply the aggregation requirements of the Standard. Disclosure about these assumptions and judgements would provide useful information as to whether the level of aggregation was appropriate and help investors to understand the various segments presented.

127. Many participants noted with approval that the Annual Improvements 2010-2012 proposals include amendments to IFRS 8 to require additional disclosures about the judgements made in applying the aggregation criteria.

Adequacy of reconciliations

128. IFRS 8 requires that the segment information prepared on a management perspective basis is reconciled with the financial statements. Reconciling items are of two types:

  (a) those that arise because some parts of the entity do not qualify as reporting segments, eg immaterial operating segments or non-revenue earning segments such as research and development or headquarter costs; and

  (b) adjustments required to restate non-IFRS measurement bases to agree with the financial statements.

129. In addition, there are two types of transactions that may not be included within reporting segment results when reported to the CODM:

  (a) allocation of some costs; and

  (b) intersegment and consolidation adjustments.

130. Participants complained about many aspects of the reconciliations:

  (a) Most preparers think that the reconciliation requirements are easy to comply with. However, a few preparers think that the reconciliations are complex and that the requirements are not clear. In particular, reconciling non-IFRS measures with the financial statements is difficult for some preparers to do in practice.

  Some preparers were also confused about how to show the different elements of the reconciliation separately. Many preparers include these within an 'other' or 'adjustment' column for simplicity but investors and regulators do not think this is helpful.

  (b) Regulators complain that reconciliations are often poorly prepared and do not comply with the Standard. In particular, many regulators complain that preparers aggregate all types of reconciling items

together into an 'other' column. Some regulators also question the adequacy of reconciliations of one or more reported non-IFRS measures of profit with the IFRS amounts.

(c) Investors generally think the reconciliations are difficult to understand and do not provide enough information to understand what the reconciling amount represents and how it relates to each segment. Investors divide information into segments to allow them to compare segments within the same entity and also to build models that compare similar segments across entities. Most investors think that the reconciliations should be prepared segment-by-segment to help in these comparisons. In the absence of that information, many investors currently attempt to allocate reconciling items to individual segments which may be inaccurate.

(d) Some non-investors have cautioned against a segment-by-segment approach to reconciliations because it goes against the Standard's core principle of using the management perspective. In addition, management may have excluded some reconciling items from the segments because they have no systematic basis on which to allocate those transactions. Some participants think that an artificial allocation of these transactions would not produce useful information and would devalue the existing data that is presented in accordance with a management perspective.

(e) Some investors have also requested more information about the effect of group structures on the segment information disclosed. They would like amounts relating to joint ventures, associates or non-controlling interests to be disclosed separately in the reconciliations, and segment amounts to be measured on a proportional consolidation basis where there is a non-controlling interest, to allow them to value the portion of the business that relates to the equity investors' interests.

131. Many participants accepted that many of these complaints arise because of non-compliance with the Standard rather than from faults within the Standard.

Entity-wide disclosures

132. 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 preparers focus on the geographical disclosures required, therefore, and omit product and customer information.

133. Participants expressed mixed views about how well preparers comply with the entity-wide disclosure requirements. Participants in some jurisdictions reported that compliance was good, although one regulator in such a jurisdiction suggested that guidance should be provided about what constituted 'material' for disclosure purpose.

134. Participants generally think, however, that entity-wide disclosures are inconsistently applied across entities and regulators frequently challenge the entity-wide disclosures made. Various reason were given for poor compliance:

   (a) Some participants note that the disclosures required, about individual customers and product groupings, are difficult to systematise.

   (b) Other participants think that these disclosures are outside the information used internally and reviewed by the CODM. These participants think that including these requirements is not consistent with the management perspective on which IFRS 8 is based.

   (c) Many participants, and especially preparers, think these requirements are burdensome and are only prepared for disclosure purposes.

135. Many participants also think these requirements are not adhered to because entity-wide disclosures lack relevance in a segment reporting context. For this reason they think they are often overlooked. This is particularly true for single-segment entities who consider IFRS 8 to be largely irrelevant to them. One participant suggested that these types of disclosures fit more easily into IAS 1 or into a general disclosure framework.

136. A few participants note that these disclosures are also inconsistent with the principle of IFRS 8 because they are measured on an IFRS basis rather than on the internal measurement basis used for internal reporting. These participants think that the entity-wide disclosures should be measured on the same basis as that used for reporting segment information.

137. On the other hand, many investors think that entity-wide disclosures make up for a lack of comparability between entities in the information provided in accordance with the Standard.

138. Some participants also commented about the three specific types of entity-wide disclosures required:

(a) With regard to product disclosures, one participant notes that the way in which these products are aligned internally may not always result in a grouping of 'similar' products as required by the Standard. They maintain a separate product grouping hierarchy especially for this disclosure, which results in additional costs. Another participant thinks that the distinction between information about groups of products and services, required by paragraph 32 of IFRS 8, and the identification of operating segments based on products and services, is not clear.

(b) The Standard also requires entity-wide disclosures about the entity's reliance on its major customers. Many users think that this is useful information. Some preparers, however, were concerned about customer confidentiality as well as the commercial sensitivity of making these disclosures.

(c) Entity-wide disclosures are also required for information about revenues and non-current assets for geographical areas. A few participants think that it is unclear how this information should be attributed to individual countries. Is the geographical customer information about revenues attributed by the site of delivery, the location of the customer's corporate centre or the site of the entity's operations providing the good or service? Some participants think that if geographical segment information is required then that should be an explicit requirement of the Standard.

Q6 Effect of implementing IFRS 8

Question 6

How were you affected by the implementation of IFRS 8?

Preparers: in answering this question please focus on whether you incurred significant unexpected costs, either as a one-time expense when implementing the Standard or as a recurring cost at each reporting cycle. If you did incur unexpected costs, please explain what these were and in what way they were required to comply with IFRS 8.

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

Investors: please focus on whether the way in which you use financial reports has changed as a result of applying IFRS 8. Please explain to us what that effect was and the consequences of any changes to how you analyse data or predict results.

139. 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.

Effect on preparers

On transition

140. In general, preparers reported few problems with the implementation of IFRS 8 apart from the identification of the CODM. This topic is discussed in detail in paragraphs 154-165. Preparers generally think that identification of the CODM was only difficult on transition.

141. The IASB's view, namely that preparers would not incur significant costs on transition because reporting was driven by the management perspective and the required reports would be available from existing management information systems, was generally justified. A few preparers, however, incurred additional costs in strengthening controls over internal reporting to ensure that this information was robust enough to use for external reporting.

142. A few preparers also noted that they incurred some additional costs or effort on transition in respect of:

(a) staff training;

(b) educating investors and analysts about their operating segments; and

(c) audit costs.

Preparers did not think that implementation costs on transition to IFRS 8 were excessive.

On an ongoing basis

143. On an ongoing basis, preparers think that IFRS 8 is less burdensome than IAS 14 because internal reports now form the basis for external reporting. Reporting processes are more efficient because a single structure and set of reports can be maintained. Most preparers think that this has resulted in significant savings.

144. One respondent (*Allianz SE*) did note, however, that segment reporting was now more burdensome for them because the number of reported segments had increased. This respondent, however, supported the change to IFRS 8 because they think that the information produced was of higher value to users. Another respondent, that now also reports more segments than when reporting in accordance with IAS 14, reported reduced ongoing costs nonetheless because of system efficiencies.

145. The exception to this general reduction in ongoing costs is entity-wide disclosures. Most preparers think entity-wide disclosures are burdensome. They are difficult to systematise and so involve preparers in additional recurring costs.

146. Many preparers resent these costs because they think this information is not useful to them and does not assist them in managing operations. They only prepare this information to comply with the requirements of IFRS 8.

Effect on investors

On transition

147. Investors think that the change in Standard has not generally affected the way that analysts assess entities, although there is a range of views about what effect IFRS 8 had on how burdensome that assessment now is on an ongoing basis. Some participants think that investors did not notice a significant change on implementation or, perhaps, have forgotten the impact of any change over the last 2-4 years.

148. A few investors reported a loss of trend information on transition to IFRS 8.

On an ongoing basis

149. On an ongoing basis, many participants think that the judgement involved in applying IFRS 8 means that investors have to spend more time to gain insight about the segment information.

150. Other participants think that the management perspective gives them greater insight into the segment structure and how that business is run. On an ongoing

basis they think that the management perspective, and its alignment with management commentary and financial presentations to analysts, has made the assessment of information easier and less burdensome.

Auditors

151. In general, most auditors think that IFRS 8 was not difficult to apply apart from the judgement involved in identifying the CODM and applying the aggregation criteria. Many participants think that the sensitivity to these judgements exist principally on transition to IFRS 8, but one respondent thinks that this judgement is required whenever IFRS 8 is applied and has increased the effort required for ongoing audit review work.

152. Many auditors also report resistance among their clients to disclose commercially sensitive segment information.

Effect on regulators

153. Regulators generally 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. One respondent (*Israel Securities Authority*) reported the need to enhance their enforcement actions to ensure proper implementation of the Standard and to broaden the disclosure reported.

Identification of the CODM

154. The practical difficulties associated with the identification of the CODM have been known for some time:

(a) the IFRS interpretation Committee have received a number of submissions on the topic, indicating concerns about diversity in practice;

(b) ESMA, in its report to the EU dated November 2011 and its letter to the IASB in April 2012, concluded that identification of the CODM was an issue that needed to be addressed; and

(c) almost half (45 per cent) of respondents to the RFI raised identification of the CODM as an issue.

155. There is considerable debate in practice about the role of the CODM. The definition in IFRS 8 includes two aspects (allocation of resources and assessment

of performance) that are not always carried out by the same person, or group, or using the same set of information.

156. Some participants think the reference to 'operating' in the title CODM is misleading as the function described in the Standard—assessing performance and allocating resources—is a more strategic role.

> The term CODM suggests that the person so designated should be involved in making operating decisions. Yet the requirement that they make resource allocation decisions suggests that they, in fact, predominately make strategic decisions. Diversity in practice is likely to result given this potential for confusion. *European Securities and Markets Authorities*

157. Many think that the level identified as CODM, based on strategic decision-making, is too high to provide useful information about the entity's performance. These participants suggest that the operating nature should be stressed in the definition to reduce confusion and to ensure that more detailed, and relevant, information is disclosed. One respondent (*PricewaterhouseCoopers*) thinks that many confuse those ratifying decisions with those creating proposals and making decisions.

158. There is also concern that paragraph 5(b) of IFRS 8 requires that segment results have to be regularly reviewed by the CODM in order for a section of the entity to qualify as an operating segment. This idea of a formal reporting structure could take a variety of forms and levels of detail. In practice, many entities now have many different management structures to support a range of decisions taken by different bodies at different levels, depending on the factors involved. One preparer reports that they can clearly identify their operating segments, based on the information used to make decisions, but that they cannot relate that hierarchy back to a definable CODM. Some participants suggest it can be difficult to identify a single CODM because it is not a concept that is in day-to-day business usage.

159. Many participants think that the idea of a static, paper-based reporting hierarchy of operating segments, used by the CODM in decision-making, is out dated. As technical advances in reporting systems are made, a large amount of information,

reported at varying strata in the organisation, is available to senior management. These participants think that the identification of operating segments would be more robust if it were based on a principle that focuses on how an entity's business is actually organised and managed, rather than using how it is reviewed by the CODM as a proxy for this. Many consider the notion of the CODM to be a rule-based criterion for identification that is at odds with a principle-based set of Standards. In their view, operating segments should be identified based on the fact of how that entity is managed.

160. A few participants noted that the operating segments reported were actually a compromise based on both how the business is segmented for internal reporting and what levels of more detailed information are required by investors.

161. Many participants think that the identity of the CODM should be disclosed because identifying the CODM will give investors insight into the way in which the entity is managed. They think that this disclosure will assist investors in understanding the entity's internal structure and the appropriateness of the segments identified.

162. In some jurisdictions, a high percentage of entities disclose the identity of the CODM. Some entities disclose an individual such as a CEO or executive Chairman. A number of these entities identify the Board of Directors as the CODM. This caused concern about corporate governance to a number of participants who think that any group that includes non-executive directors should not be involved in the CODM role because of the operating nature of the role of the CODM. Some participants also suggest that when the CODM is interpreted as being the board, some large and complex entities may report only one segment.

163. One participant suggested that key management personnel as defined in paragraph 9 of IAS 24 *Related Party Disclosures* should be substituted for the notion of the CODM:

> *Key management personnel* are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director(whether executive or otherwise) of that entity.

164. Others think that local regulation may already specify the authorised decision maker by law. Some European participants suggested referring to the CODM in terms that are consistent with the 4th and 7th directives. Some suggested using a wording to capture that local, legal role where applicable. Most participants accepted it would be difficult to do this in a way that could be applied across all jurisdictions.

165. The staff note that the Conceptual Framework refers to a 'governing board' in connection with the idea of management. Whenever the term management is used, paragraph OB4 states that it refers to management and the governing board of an entity.

Views on the IFRS 8 PIR process

166. All participants supported the IASB's PIR initiative. The PIR process provides an opportunity to assess the effect of the Standard on all types of stakeholders. Participants think this is a positive step towards ensuring consistent and high quality reporting and facilitating a global acceptance of IFRSs. In most participants' view such reviews are essential to ensure the Standards achieve their objectives and are operational in a range of jurisdictions.

Format of the RFI

167. Many participants liked the format of the RFI, which is based on a limited number of open questions—they think that this format will provide more relevant answers. These participants appreciate a broader approach that allows them to suggest improvements as well as commenting on whether the Standard worked as intended. A few participants said that they would prefer a wider-range of specific questions or even a questionnaire. This is very much a minority view.

168. Participants frequently referred to the wording of the questions in the RFI where each question was followed by suggestions of the type of issues that investors or preparers might want to comment on.

169. These suggestions were included to help investors and preparers, who would be unfamiliar with the PIR process, to take part in the consultation process. We thought that auditors, regulators and standard-setters would be better able to adapt to the new process and would be more comfortable contributing to the RFI response.

170. Some participants were concerned that this wording made it seem that the IASB is not interested in information from groups other than investors and preparers. This was an unintended consequence of including additional guidance for investors and preparers and should be borne in mind when planning future RFIs.

Messages about the information received

171. Some participants raised caveats about the process:

(a) Some noted that participants are more likely to respond if concerned about, or dissatisfied with, the Standard. Some suggested that the relatively low engagement with preparers was due to their overall satisfaction with IFRS 8.

(b) Some participants think that many of the implementation issues were transitional, for example the identification of the CODM. These participants think that responses to the consultation process would be reduced because there are few ongoing issues.

(c) Many jurisdictions reported that there were few changes to financial reporting as a result of implementing IFRS 8 because many entities had already aligned their reporting with IAS 14 and, consequently, there was only limited local interest in the PIR process.

(d) Many participants emphasised that throughout the PIR process we needed to distinguish between enforcement issues and a lack of clarity in the Standard.

(e) Some suggested that participation in the process was less likely where participants think future change is unlikely to arise from the PIR process.

172. Many participants provided examples from published financial statements to support their views. This is an important way in which participants added to the quality of information provided to the PIR process.

173. A few respondents suggested the review might be better addressed by commissioning research about published information to allow a systematic identification and evaluation of the change to financial reporting that resulted from the implementation of IFRS 8.

Confidentiality

174. A number of participants were reluctant to publish information that they wanted to keep confidential. In particular, preparers and some auditors and regulators were unwilling to submit written accounts of deficiencies in actual financial reporting that arose as a result of teething-problems when the Standard was first implemented. General reference was made in many cases to practical difficulties in identifying the CODM or agreeing the aggregation process, but without 'naming names'.

Difficulty in engaging with some types of participants

175. Some national and regional standard-setters noted difficulties in engaging equally with all types of interested parties. They suggested that this should be taken into account when planning future PIRs.

Outcomes

176. A few respondents think they could provide more relevant comment letters if the intended outcome of the PIR process were articulated in advance. In their view the IASB should, at the initiation of a PIR, make clear the scope of the issues to be considered and the level of amendments to the Standard that might arise.

Alternative PIR processes

177. Some suggested providing a template of the review process so that all participants could see how their responses would fit in with an overall plan. Suggested phases in that template included:

   (a) revisiting the original objectives of the Standard;

   (b) identifying impracticable aspects through a review of the implementation issues;

   (c) identifying guidance that is unclear by investigating diversity in practice;

   (d) identifying aspects of the standard that conflict with the objective; and

   (e) identifying information produced that is not useful.

178. A few respondents think that the PIR should be simplified and the process restricted to addressing inconsistent application and the achievement of objectives.

179. Some participants thought that we should focus solely on the effects and usability of the current Standard rather than making any comparison with previous requirements.

Convergence and the US experience

180. A few participants noted that the Financial Accounting Foundation (FAF),the trustee organisation of the FASB, is currently conducting a post-implementation review of the Financial Accounting Standards Board's Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information*. This topic frequently arose in outreach conducted and especially in the early stages of our planning activities.

181. Although the two standards under review are converged, except in a few respects, the review processes themselves have a number of differences as they relate to this Standard:

	IASB	FASB
Responsibility for the review	IASB	FAF
Objective of the post-implementation review	Objective is to assess effect of application of the Standard	Objective is to assess whether the Standard achieved its purpose
Performance	Performed by IASB staff with assistance from interested parties	Performed by FAF staff and third parties
Time of review from effective date	2-3 years	15 years
Transparency	Public RFI and IASB outreach. Discussion of findings in public IASB meetings.	Stakeholder input is not public. Their identity is anonymous, even to FASB.

182. A few participants requested that the IASB and the FAF should co-ordinate their future responses to their findings from their PIR processes to ensure that the two standards remain converged.

Update as at January 2013

183. The FAF staff have completed their PIR of SFAS 131 and the report to the FAF on the review of SFAS 131 was published on 14 January 2013. In our view, the FAF review has not identified any unexpected or unexplained effects not already reflected in this paper. The press release that accompanies the report to the FAF notes that the FASB will consider the results of our review of IFRS 8 before making a determination on how to proceed.

184. We have been in contact with FAF staff throughout this process and will continue to liaise with them.

Next steps

185. In our view, we have received enough information to prepare a preliminary effects analysis, including staff recommendations of areas for which agenda proposals

should be prepared. We intend bringing these to the IASB for discussion at a subsequent meeting.

Questions to the IASB
1. Do you agree that we have enough information to prepare an effects analysis for your review?
2. Do you have any comments to add to the comments and messages contained in this paper?