

STAFF PAPER

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REG IASB Meeting

Project	Improvements to IFRS 8 <i>Operating Segments</i> arising from the post-implementation review		
Paper topic	A brief history of IFRS 8		
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Purpose of the paper

1. This paper sets out a brief history of IFRS 8 *Operating Segments*.
2. This paper is for information only and will not be discussed at the meeting of the International Accounting Standards Board (Board).

Why is segmental disclosure important?

3. Disclosures about operating segments provide information about an entity's business activities and the economic environment in which the entity operates.¹ Consequently, segmental disclosures are useful for understanding and making decisions about the entity as a whole.²
4. Segment disclosures provide users with a context to evaluate information in the financial statements. Many users of financial statements consider disclosures about the entity's operating segments to be one of the most important pieces of information provided in financial statements. As the French Society of Financial Analysts (SFAF) said in its comment letter to the Exposure Draft:

¹ Paragraphs 1 and 20 of IFRS 8.

² Paragraph 43 of Appendix A of IFRS 8.

...segment information is among the most used information by users of financial statements.

History of IFRS 8

Convergence project

5. The Board decided to add a short-term convergence project on segment reporting to its active agenda in 2002. The project was conducted jointly with the US Financial Accounting Standards Board (FASB). The objective of the project was to reduce differences between International Financial Reporting Standards and US Generally Accepted Accounting Principles (US GAAP), more specifically, with SFAS 131 *Disclosures about segments of an enterprise and related information* (SFAS 131).
6. The Exposure Draft of IFRS 8 was issued in January 2006.
7. IFRS 8 replaced IAS 14 *Segment Reporting*. IAS 14 was more prescriptive than IFRS 8 in terms of both:
 - (a) how to identify operating segments—based on similar risks and rewards; and
 - (b) what information to disclose about those segments—a list of required items.
8. Paragraph 5 of IFRS 8 states that an operating segment is a component of an entity:
 - (a) that engages in business activities from which it may earn revenues and incur expenses;
 - (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
 - (c) for which discrete financial information is available.
9. Paragraph 23 of IFRS 8 states that an entity shall disclose information about its reportable segments if this information is 'reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker'.

10. The Basis for Conclusion of IFRS 8 says that IFRS 8 is based on the management approach, which focuses on information about the components of the business that management uses to make decisions about operating matters. Some people said that under the management approach, entities would be likely to report more detailed information. In addition, knowledge of the structure of an entity's internal organisation is valuable in itself because it highlights the risks and opportunities that management decides are important.³
11. Paragraph BC6 of IFRS 8 says that most of the academic research finding on segment reporting indicated that application of SFAS 131 resulted in more useful information than its predecessor, SFAS 14.
12. The Board received 182 comment letters to the Exposure Draft.⁴ Most respondents to the Exposure Draft supported the adoption of the management approach. These respondents wrote that the management approach allows users to review an entity's operations from the same perspective as management.⁵ Other respondents disagreed with the management approach. They argued that the approach in IAS 14 was superior because it provided comparability of information across entities by defining measures of segment revenue, segment expense, segment result, segment assets and segment liabilities.⁶
13. Given the Board's support for the principles of the management approach required by SFAS 131 and the objectives of the short-term convergence project, the Board decided to use the text of SFAS 131 for IFRS 8.⁷
14. IFRS 8 was issued in November 2006; it is substantially converged with US GAAP, SFAS 131.

Endorsement in Europe

15. In September 2007, while endorsing IFRS 8 in Europe, the European Commission issued a report *Endorsement of IFRS 8 Operating Segments: Analysis of Potential*

³ Paragraph 59 of Appendix A of IFRS 8.

⁴ Paragraph BC8 of IFRS 8.

⁵ Paragraph BC10 of IFRS 8.

⁶ Paragraph BC11 of IFRS 8.

⁷ Paragraph BC16 of IFRS 8.

Effects—Report (Report).⁸ The Report analysed key issues raised when the Board developed IFRS 8 and issues that the European Financial Advisory Group (EFRAG) considered in developing its EU endorsement advice to the Commission.

16. The report concluded that:

The use of the management approach has an overall positive effect on the quality of the segment information, whose usefulness and relevance would increase.

The increased usefulness and relevance of the segment information based on the management approach outweigh concerns expressed about the comparability of financial reports.

17. However, the Commission did decide there was a need to monitor that IFRS 8 was applied in a ‘consistent way’, welcoming the Board’s initiative to perform an ‘ex-post’ analysis after two years of application.

18. IFRS 8 was endorsed for the use in Europe in 2007 with an effective date of 1 January 2009.

Post-implementation review

19. IFRS 8 was the first Standard to be subject to a Post-implementation Review (PIR), following the policy decision in 2007 to introduce PIRs.

20. The PIR commenced in 2012 with the Board publishing a Request for Information. The Board received 62 comment letters distributed as follows:

Accountancy bodies	7
Accounting firms	7
Individual	1
Preparers and their representative bodies	23
Regulators	3

⁸ European Commission, Internal Market and Services DG, *Endorsement of IFRS 8 Operating Segments, Analysis of Potential Effects - Report*

Standard-setters	15
Users and their representative bodies	6
Total	62

21. The Report and Feedback Statement *Post-implementation Review: IFRS 8 Operating Segments* (Report and Feedback Statement) was published in 2013.⁹
22. The Report and Feedback Statement say that views from investors was mixed; some investors like segment information using the management approach (especially where it is consistent with information in the management commentary and in presentations to analysts); other investors are wary of the management approach. These investors mistrust management's intentions and sometimes find that segments are reported in such a way as to obscure the entity's true management structure (often as a result of concerns about commercial sensitivity) or to mask loss-making activities within individual segments.¹⁰
23. Preparers generally thought that the Standard worked well. While auditors, accounting firms, standard-setters and regulators were generally supportive of the Standard, they suggested some improvements.
24. The Board's overall conclusion was that the Standard was functioning as expected, but that some areas of IFRS 8 should be investigated for potential improvement and amendment.
25. The US Financial Accounting Foundation undertook its PIR of SFAS 131 in 2013. In contrast to the Board, in January 2014, the FASB decided not to add to its agenda a project to amend SFAS 131.

Exposure Draft *Improvements to IFRS 8 Operating Segments*

26. In 2014, following the Report and Feedback Statement, the Board decided:

⁹ <http://archive.ifrs.org/Current-Projects/IASB-Projects/PIR/IFRS-8/Documents/PIR-IFRS-8-Operating-Segments-July-2013.pdf>

¹⁰ Page 5 of the Report and Feedback Statement.

- (a) to further investigate issues reported in the Report and Feedback Statement;
 - (b) to test various solutions; and
 - (c) to assess the cost/benefit balance of any proposed amendments.
27. In 2015, the Board decided that if it amended IFRS 8, it should aim to maintain the level of convergence achieved when it issued IFRS 8 by adhering to the underlying principle common to both IFRS 8 and SFAS 131—the management approach.¹¹
28. After further investigation the Board proposed amendments to IFRS 8 and an amendment to IAS 34 with the overall intention to improve the quality of segment disclosures that entities provide.¹²
29. The Board published the Exposure Draft *Improvements to IFRS 8 Operating Segments* (Proposed amendments to IFRS 8 and IAS 34) in March 2017 (Exposure Draft).
30. The comment period ended on 31 July 2017.

Recent FASB developments

31. In September 2017, the FASB decided to add a project to its technical agenda on segment reporting that will focus on improvements in two areas: the segment aggregation criteria and some disclosure requirements. The FASB decided to add the project to its technical agenda in response to feedback on its 2016 Agenda Consultation. Agenda paper 27C describes the FASB’s project in more detail.

¹¹ <http://www.ifrs.org/-/media/feature/meetings/2015/may/iasb/ifrs-implementation-issues/ap12c-staff-recommendations.pdf>

¹² <http://www.ifrs.org/-/media/feature/news/updates/iasb/2015/iasb-update-may-2015.pdf>