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International Accounting Standards Board

Latest revision: November 2006

Segment reporting

Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed as the project develops.

This project is complete. The Board published IFRS 8 in November 2006.

Introduction

This project report is structured as follows:

- Objective
- Next steps
- Background
- Tentative decisions to date
- Contact information

Objective

1. Achieving convergence of accounting standards around the world is one of the prime objectives of the International Accounting Standards Board. In pursuit of that objective, the Board and the Financial Accounting Standards Board (FASB) in the United States have undertaken a joint short-term project with the objective of reducing differences between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (US GAAP) that are capable of resolution in a relatively short time and can be addressed outside major projects. One aspect of that project involves the two boards considering each other's recent standards with a view to adopting high quality financial reporting solutions.

2. The project arises from the IASB's consideration of FASB Statement No.131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131)

issued in 1997, compared with IAS 14 *Segment Reporting*, which was issued in substantially its present form by the IASB's predecessor body, International Accounting Standards Committee, in 1997.

3. The objective of the project is to reduce differences in segment reporting between IFRSs and United States generally accepted accounting principles (US GAAP).

Next Steps

4. The Board issued ED 8 *Operating segments* in January 2006, which would replace IAS 14 and align segment reporting with the requirements of SFAS 131. The comment period ended on 19 May 2006 and the IASB received 182 comment letters. The staff analysed the comment letters from constituents and presented proposals to the to the Board at its July and September 2006 meeting. IFRS 8 was published at the end of November 2006. As noted in the Basis for Conclusions to IFRS 8, the Board plans to issue an ED proposing an amendment to the scope of IFRS 8 to cover publicly accountable entities in conjunction with the ED of the IFRS for SMEs.

Background

Reasons for a new IFRS to replace IAS 14

5. The requirements of SFAS 131 are based on the way that the management regards an entity, focusing on information about the components of the business that management uses to make decisions about operating matters. In contrast, IAS 14 requires the disaggregation of the entity's financial statements into segments based on related products and services, and on geographical areas.

6. A number of academic research studies have shown that the management approach of SFAS 131

   a. increases the number of reported segments and provided more information;

   b. enables users to see an entity through the eyes of management;

   c. enables an entity to provide timely segment information for external reporting with relatively low incremental cost;

   d. enhances consistency with the management discussion and analysis or other annual report disclosures; and

   e. provides various measures of segment performance

7. The Board was also aware that many users of financial statements supported the management approach of SFAS 131 for the reasons mentioned in the previous paragraph.

8. The Board therefore decided to converge with SFAS 131.

9. In ED 8, the Board proposed extending the scope of the IFRS to all entities that have public accountability rather than just entities whose securities are publicly traded. Because a definition of public accountability was being developed on a separate Board project on small and medium size entities (SMEs), the Board decided to exclude public accountable entities from the scope of IFRS 8.   However, the Board

indicated that an amendment to the scope of IFRS 8 would follow once the definition of public accountability had been properly developed in the SME project. Since that project has completed its work on the definition, an Exposure Draft of the proposed amendment to the scope of IFRS 8 will be issue in January 2007 for public comment.

Main features of the new IFRS on segment reporting

10. The requirements of the IFRS are based on the information about the components of the entity that management uses to make decisions about operating matters. The IFRS specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34 *Interim Financial Reporting*, requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers.

11. The IFRS requires an entity to report a measure of operating segment profit or loss and assets. It also requires an entity to report a measure of segment liabilities and particular income and expense items if such measures are regularly provided to the chief operating decision maker. It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements. It requires an entity to report information about the revenues derived from the entity's products or services (or groups of similar products and services), about the countries in which the entity earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions.

12. The IFRS also requires an entity to give descriptive information about the way that the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.

Contact Information

13. Staff contacts

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