asian-oceanian standard-setters group

THE FOURTH ANNUAL AOSSG MEETING

Building regional capacity in IFRS

28-29 November 2012 Kathmandu, Nepal

IASB Post-implementation Review of IFRS 8 *Operating Segments*

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This views contained in these slides are broad views of the staff of the AOSSG Post-implementation Review of IFRS 8 working group members and do not necessarily reflect the formal views of each working group member.

Agenda

- The background
- Method of collecting views
- Overall conclusions
- Views from investors' perspective
- Views from preparers' perspective
- Common issues identified
- Going forward

The background

- IFRS 8 *Operating Segments* became effective in 2009, replacing IAS 14 *Segment Reporting* and introducing a fundamentally different approach to identifying the components of an entity that are reported in segmental disclosures

- Disclosure is driven by the information reported to management, rather than necessarily by categories of business or geography

- The IASB has decided to undertake post-implementation reviews of new IFRSs, starting with IFRS 8 and a request for information was issued in July 2012 to:

  - monitor the implementation of IFRS 8

  - identify any significant problems in IFRS 8

  - revise IFRS 8 to remedy any problem identified

Method of collecting views

- Views are collected through
  - Questionnaire to AOSSG WG members

    (Australia, China, India, Japan, Korea, Malaysia and Singapore)
  - IASB outreach roundtables in late Sep (Hong Kong) and early Oct (Australia)

Overall conclusions

- Jurisdictions are converging with, or transitioning to, IFRS at different stages
- Generally, jurisdictions that are recently converged to IFRS and adopted IFRS 8 directly, found that using a management perspective for segment disclosures allows investors to have more information than using their previous GAAP
- However, for jurisdictions that transitioned from IAS 14 to IFRS 8, it was noted that the implementation of IFRS 8 resulted in a fairly similar level of information compared to IAS 14:
  - Most constituents generally did not note any significant improvements or changes in the way they use financial reports as a result of applying IFRS 8
  - The number of reportable segments identified under IFRS 8 is similar to those identified under IAS 14
  - The segment profit measures are also broadly consistent with those reported under IFRSs

Views from investors' perspective (1)

- Segmentation basis didn't change on the introduction of IFRS 8 for many entities
- Questionable whether the aim of using the management perspective has worked in practice
- When management commentary, segment analysis and investor presentations agree, provides validation of all three
  - Some think management perspective is very good at providing useful information. Others think too much leeway in identifying segments
  - Some think that may use internal segments to "hide" lose making areas
  - Some regulators query different bases to establish how entity is run
- Concern about lack of comparability between entities in the same business sector, but some agree that you never achieve comparability between two different entities because of differences in product lines, group complexity and organization

Views from investors' perspective (2)

- Concern about lack of trend information within a single entity as a result of internal reorganizations
- Concern about loss of geographical information
- Firms operating in more competitive industries, or are family-owned, are less willing to disclose and only provide the minimum disclosures required
- More disclosure of operational metrics used by CODM are desired. Also included on the wish list: marketing budget and research expenditure of each business line as it would indicate the future direction of the company. However, it is generally understood that they are not provided because of the concern of commercial sensitivity
- Some note that the IFRS 8 requirement to use internally-reported line items resulted in widespread reporting of non-GAAP line items such as EBITDA

Views from preparers' perspective (1)

- **Difficulties in identifying the chief operating decision maker (CODM)**
  - The standard defines the CODM as a function to allocate resources to and assess the performance of the operating segments of an entity
  - However, in practice, reporting entities have many different management structures and therefore the function of the CODM could be performed by more than one person (e.g. a board of directors, an executive committee or a management committee)
  - As such, some entities have difficulty in identifying a single CODM (whether the CODM is at a higher level or the day-to-day decision maker)

Views from preparers' perspective (2)

- **Seldom report non-IFRS measurements**
  - Some preparers mentioned that they had previously modeled their internal reporting processes on IAS 14 to prevent a duplication of effort, and consequently did not change their basis of reporting operating segments when applying IFRS 8
  - Concern about the potential effects on understandability for disclosing some KPIs information

Common issues identified

- **In summary, the common issues identified in applying IFRS 8 are:**
  - No clear description of the identity of the CODM;
  - Inadequate disclosure of factors used to identify reportable segments and reasons for aggregation of segments;
  - Inadequate disclosure of entity-wide disclosures;
  - Inadequate disclosure of material reconciling items; and
  - Differences in how segments are described between the financial statements and management commentary

Going forward

- Better clarification of the definition of CODM
- The application of the aggregation criteria requires a significant amount of judgement. Additional disclosure about the assumptions and judgement made would provide users with important information as to whether the level of aggregation is appropriate
- Consistency between the front-end and the back-end of an annual report is something that users value and regulators are promoting. An analysis or explanation of the mismatch is encouraged given that IFRS 8 disclosures are based on the information used to manage the business

Thank you