

7 December 2012

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Mr. Hoogervorst,

AOSSG Comments on IASB Request for Information Post-implementation Review: IFRS 8 Operating Segments

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comment on the IASB Request for Information on Post-implementation Review of IFRS 8 *Operating Segments* (Request for Information). We support the post-implementation review programme and believe that it is a valuable addition to the Board's due process and would further help ensure consistent, high quality financial reporting that provides valuable information to investors.

The AOSSG currently has 25 member standard-setters from the Asian-Oceanian region: Australia*, Brunei Darussalam, Cambodia, China*, Dubai, Hong Kong*, India*, Indonesia, Iraq, Japan*, Kazakhstan, Korea*, Macao, Malaysia*, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore*, Sri Lanka, Thailand, Vietnam, and Uzbekistan. Members with an asterisk (*) are also members of the AOSSG Post-implementation Review of IFRS 8 Working Group, which is essentially the AOSSG Chairman's Advisory Committee.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region. This submission has been circulated to all AOSSG members for their comment after having been initially developed through the AOSSG Post-implementation Review of IFRS 8 Working Group.

It is our understanding that jurisdictions that have recently adopted or converged with IFRS, found that using IFRS 8's management perspective for segment disclosures allows investors to have more information. 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. The reportable segments identified under IFRS 8 are similar to those identified under IAS 14 and the segment profit measures are also broadly consistent with those reported under IFRSs.

Some entities are experiencing difficulties in identifying the chief operating decision maker (CODM). Some jurisdictions have argued that identification of segments would be more

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robust if it were based on a principle that focuses on how an entity's business is actually organised and managed segmentally rather than by reference to the review of information by the CODM, which they regard as only a proxy for how a business is managed. It is noted that these jurisdictions consider this alternative approach would be more principle-based than the current approach under IFRS 8.

Please refer to the Appendix to this letter for our comments on specific questions set out in the Request for Information.

The AOSSG would be pleased to provide additional input on the matters highlighted in our response, if required, to facilitate further consideration by the IASB. If you have any questions, please feel free to contact us.

Yours sincerely



Kevin M. Stevenson

Chair of the AOSSG



Clement Chan

Leader of the AOSSG Post-implementation
Review of IFRS 8 Working Group

Appendix

Comments on the IASB Request for Information, Post-implementation Review: IFRS 8 *Operating Segments*

Question 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.

The Asian-Oceanian Standard-Setters Group (AOSSG) was formed in 2009, and comprises national accounting standard-setters from Asia and Oceania. The purpose of the group is to discuss and share experiences in the adoption of IFRS and to contribute to the development of a high-quality set of global accounting standards.

We have gathered the feedback from our working group members through the completion of a questionnaire on the issues raised in the Request for Information. The composition of our working group was evenly divided between those who had adopted IAS 14 prior to applying IFRS 8 and those who were a recent adopter of IFRSs and therefore were applying IFRS 8 directly.

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?

Based on our observation, generally, jurisdictions that have recently adopted or converged with IFRS have, found that using IFRS 8's management perspective for segment disclosures allows investors to have more information. 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. It was the understanding that the reportable

segments identified under IFRS 8 are similar to those identified under IAS 14 and the segment profit measures are also broadly consistent with those reported under IFRSs. Some preparers in certain jurisdictions mentioned that they had previously modelled 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.

In addition, it also came to our attention that some preparers in certain jurisdictions found it difficult to identify the chief operating decision maker (CODM). IFRS 8 requires entities to disclose segmental information in a manner consistent with the way components are reported to the 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, we understand that reporting entities have a variety of management structures in place and therefore the function of the CODM could be performed by more than one person (e.g. a board of directors, an executive committee and/or a management committee). As such, some entities have difficulty in identifying a single CODM and in many cases the Board of Directors is identified as the CODM. This indicates that there might be some confusion caused with the definition of CODM in the standard. Some jurisdictions commented that the fact that the identity of the CODM is not required to be disclosed in the financial statements might prevent readers of financial statements from understanding who is reviewing the information which is presented in the segment disclosures.

Some jurisdictions also expressed concern with what they regard as a the somewhat out-of-date presumption implied by IFRS 8 that the CODM would necessarily be looking at aggregated paper-based information incapable of being extracted in fine detail in various alternative ways. It is argued that the CODM might often be able to extract and review information at different sub-segment levels and, therefore, has a choice of information to be used for making decisions, which could affect the identification of operating segments under IFRS 8, without reflecting the way the business is managed. It was noted that a similar situation may be envisaged where different members of the CODM have access to different levels of information, which then becomes common knowledge of all members.

These commentators consider that the above-mentioned conundrums are a result of the rule-based criteria arising from the application of the notion of the CODM. They believe the identification of 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 segmentally rather than by reference to the review of information by the CODM, which they regard as only a proxy for how a business is managed.

An AOSSG member received a comment from an investor that a two-dimensional segment information presentation in terms of both the business lines and geographical locations for organisations that operate using such a matrix structure would provide easy to understand information to users of financial statements. Therefore it is suggested that the matrix presentation should be required for those organisations for which it is relevant, rather than being a free choice.

A majority of AOSSG members commented that it is common for investors and regulators to look for consistency between management commentary, IFRS 8 segment disclosures and

investor presentations. However, it was noted that the segment disclosures in some financial statements were not consistent with management commentary such as directors' reports and the management discussion and analysis (MD&A). In one example, three segments were disclosed in the segment information note while the business overview in the MD&A included five business operations. Some regulators queried the different bases used to establish how an entity is run and some investors are concerned that the management perspective provides too much leeway for the management to decide on what information goes into the report. They believe this could lead to selective disclosures which would result in less objective and thus less relevant information.

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.

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 enable 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.

A majority of AOSSG members believe that the use of non-IFRS measurements has not affected the reporting of operating segments in a significant manner as most of the entities report segment information using measurement bases that are consistent with IFRSs.

Some note that the IFRS 8 requirement to use internally reported line items resulted in widespread reporting of non- GAAP line items such as 'adjusted EBITDA'. The adjusted EBITDA is often calculated as operating profit (presented in the P/L on a voluntary basis) + depreciation expense + impairment loss of goodwill – gain arising from restructuring + loss arising from restructuring. The components of this are usually calculated based on the same measurement basis as IFRSs.

Some preparers in certain jurisdictions commented that it is difficult to identify the primary information provided to the CODM within a lengthy reporting package. In many of cases, the variety of information available to the CODM via an entity's management reporting system is considered too detailed to disclose in an external financial report.

A majority of AOSSG members agreed that the application of the criteria of the aggregation of operating segments into reportable segments requires a significant amount of judgement. They consider that level of subjectivity in deciding how aggregation criteria should be applied may lead to diversity in practice.

Some auditors expressed concerns to our AOSSG members that the time used and costs incurred for auditing non-IFRS measurements has been unduly high and difficulties have been encountered to verify the basis applied. Also, there is a concern that the disclosure of non-IFRS measurements would lead to unintended consequences, for instance, revenue is reported net in the financial statements whereas revenue in the segment report might be shown on a gross basis, which may mislead users.

One AOSSG member received a comment from an investor that the use of non-IFRS measurements is not helpful in understanding the operating risks involved in managing a specific business, rather, the sensitivity analysis on credit risk and foreign currency risk etc required under other IFRSs provide more useful information about operating risks.

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.

As noted in our response to Question 3, IFRS 8's use of information as reviewed by the CODM does not appear to have affected financial reporting in a significant manner as a majority of entities are using measurement bases that are consistent with IFRSs in their internal reports. However, some jurisdictions expressed a concern that the disclosure of asset and liability figures would be affected given the change from IAS 14's mandatory requirement to disclose segment assets and liabilities compared to IFRS 8's requirement to do so only if that information is reviewed by the CODM.

Certain AOSSG members noted that users would like to have separate identification of how significant items have affected segment results; for example impairments. Within the disclosure of segment results, it was noted that some entities that had recorded goodwill impairments during the year did not allocate those impairments to their reportable segments. Such an allocation, whilst not mandated by IFRS 8, may be helpful to a user of the financial statements seeking to understand which parts of the business have suffered worse than expected performance.

Some of the investors also mentioned a desire for information relating to the marketing budget and research expenditure of each business line to be disclosed, as this would indicate the future direction of the business. However, it is generally understood that preparers are

concerned about the commercial sensitivity of this information, particularly in the context of jurisdictions where most of the corporations are family-controlled and have less incentive to provide more information to investors.

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.

In most of the AOSSG jurisdictions, users generally did not expect any critical problems with the financial analysis under IFRS 8 as long as a reconciliation of performance measures is presented.

Some users in certain jurisdictions were concerned about the loss of geographical information in applying IFRS 8. Currently, disaggregated information by location is required only for revenues and non-current assets, under paragraph 33 of IFRS 8. Some users also considered that the presentation of profit/loss and capital expenditure by geographical location would be useful to readers.

In addition, some investors commented that the requirement to allocate revenue from external customers to geographic areas is not sufficiently robust. Currently, an entity may allocate the revenue from external customers to geographic areas as it deems most appropriate. It is noted that the areas presented would generally include the selling location and customer location. Since the customer location for some multi-nationals would only represent its head office location and the products might be transported to other locations, the usefulness of disclosing customer location could be questioned. It is believed that the disclosure of the geographic areas that reflect the underlying business risks of the company is more important.

However, some preparers considered that the requirement to disclose geographic areas of operation under IFRS 8 is less flexible when compared with that under IAS 14. Specifically, entity-wide disclosures are not determined by the management approach which is used to

identify and measure operating segment information. An additional burden could be imposed on preparers if that geographic information is not reviewed by the management.

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.

We understand that practitioners in most of the AOSSG member jurisdictions do not consider IFRS 8 to be a particularly difficult standard to apply, other than the potential difficulty in identifying the CODM. Identification of the data regularly reviewed by the CODM to make decisions about resource allocation and the appropriateness of aggregating operating segments for reporting purposes were other frequently expressed concerns.

Based on the findings, we recommend the following for the IASB's consideration:

- Better clarification of the definition of CODM. An alternative view advocates replacing the notion of CODM with principles focusing on how an entity's business is actually organised and managed segmentally.
- Requiring an entity to disclose who it considers to be the CODM and the basis on which it has made that determination.
- The application of the aggregation criteria requires a significant amount of judgement: Additional disclosure about the assumptions and judgements made would provide users with important information as to whether any given level of aggregation is appropriate.
- Consistency between the various component parts (such as financial statements and MD&A) of an annual report is something that users value and regulators are promoting. An analysis or explanation of any such inconsistencies is encouraged.