

European Financial Reporting Advisory Group ■



DRSC

Joint Outreach Event

Frankfurt

13 November 2012

# Introduction and outline

## EFRAG Outreach events

EFRAG holds outreach events in partnership with National Standard Setters and user groups across Europe on a regular basis on topics of general interest to constituents.

For more details of the Autumn 2012 series of events, please see the [EFRAG website](#).

## Joint Outreach Event, Frankfurt, 13 November 2012

EFRAG, the IASB and the Accounting Standards Committee of Germany (ASCG), organised a joint outreach event, held in Frankfurt on 13 November 2012, for constituents to:

- Give evidence on their experiences preparing information under IFRS 8 *Operating Segments* as a contribution to the post-implementation review of that standard; and
- Debate and feedback on the EFRAG/ANC/FRC discussion paper *Towards a Disclosure Framework for the Notes* with an aim to eventually influence and provide input to the IASB on their envisaged disclosure framework project.

ASCG President Liesel Knorr hosted the event. IASB project manager April Pitman gave an overview of the changes from IAS 14 to IFRS 8, ASCG project manager Rüdiger Schmidt explained the preliminary views of the ASCG. EFRAG senior project manager Michel Sibille then facilitated the discussion summarised below.

EFRAG senior project manager Filippo Poli introduced and set out the main messages in the EFRAG/ANC/FRC discussion paper. ASCG project manager Holger Obst spoke about the FASB Invitation to Comment *Disclosure Framework* and set out the preliminary views of the ASCG.

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# Feedback statement

## Purpose and use of this feedback statement

This feedback statement has been prepared to summarise the messages received from constituents at the outreach event.

Evidence on experiences with IFRS 8 *Operating Segments* will be used in the preparation of EFRAG's response to the IASB's *Request for Information*.

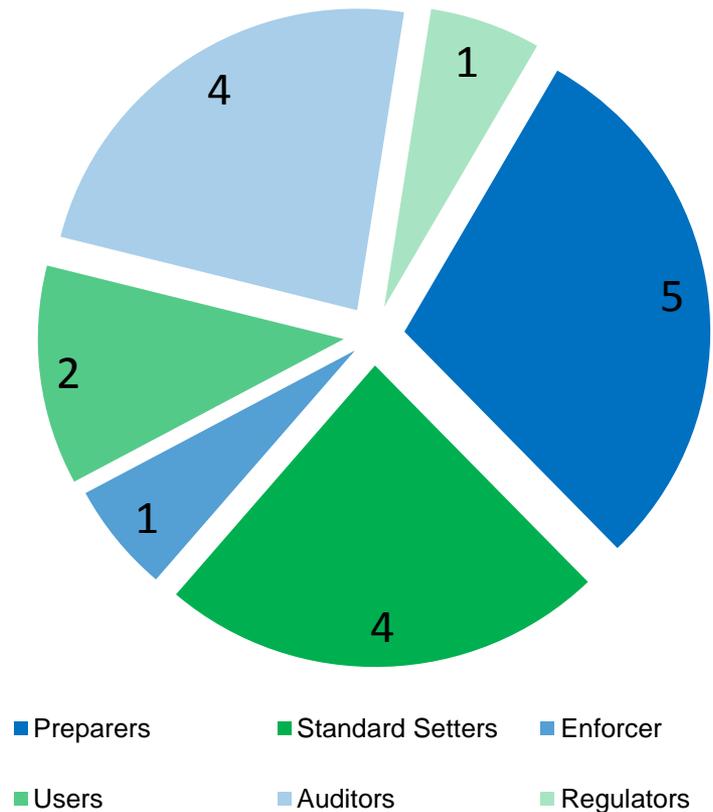
Feedback received from constituents on the EFRAG/ANC/FRC Discussion Paper *Towards a Disclosure Framework for the Notes* will be considered by EFRAG TEG, the French Standard Setter ANC and the UK Standard Setter FRC when deciding future steps for the project.

This feedback statement has been prepared by the EFRAG secretariat for the convenience of constituents. The content of the report has not been subject to review or discussion by the EFRAG Technical Expert Group.

## Participating constituents

Participating constituents have had extensive experience with IFRS and most were currently involved at a senior level.

## Number by background



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# IFRS 8 Post-Implementation Review

# IFRS 8 post-implementation review

## Information to be considered together with this document

This document should be considered together with the IASB's *Request for Information*, issued as part of the post-implementation review. This, and other information on the project, are available on the [EFRAG website](#).

## Background to the post-implementation review

IASB project manager April Pitman briefly described the post-implementation review process, and noted that the number of responses to the request for information was currently limited. She also mentioned the more common issues that were raised around the standard:

- Identification of the Chief Operating Decision Maker – could it be more than one individual or group; and
- How and when to aggregate and disaggregate segments for reporting purposes.

There had been an expectation that IFRS 8 would result in an increase in the number of segments reported, and this was partially the case. In some jurisdictions, the change was limited but this could potentially be explained by the fact that entities had aligned their internal reporting to the external segment reporting.

Post-implementation reviews are a new part of the IASB's due process, and apply to new standards or major amendments that have taken effect since 2009. The post-implementation review of IFRS 8 is the first to be carried out. IFRS 8 was adopted in 2006, replacing IAS 14, and increased convergence between IFRS and US GAAP.

The outcome of the post-implementation review will be considered when the IASB decides on its future agenda, and options could include:

- Further monitoring should the post-implementation review be inconclusive;
- Retaining IFRS 8 as issued; or
- Revising IFRS 8 to remedy any problems identified.

## Areas being investigated

The themes for investigation as part of the post-implementation review are the key decisions taken when adopting IFRS 8 as well as implementation experiences. These key decisions, and how they differ to those underlying IAS 14, are set out on the next page.

A review of existing academic literature and publically available material from accounting firms, regulators and investors has also taken place.

# Changes from IAS 14 to IFRS 8

## Management basis of identifying operating segments

IAS 14 required segments to be identified either on the basis of businesses or on the geographical environments where the business operated. IFRS 8 requires segments to be defined 'through the eyes of management', so segments are those used internally and reported to the chief operating decision maker (CODM).

## Management determined measurement basis

IAS 14 required the amounts disclosed for each line item and segment to be on a measurement basis consistent with the rest of the financial statements (i.e. IFRS measurement basis). IFRS 8 requires the amounts to be on the same basis as the one used by the CODM when allocating resources.

## Internally reported line items

IAS 14 required a company to disclose specific line items for each reported segment. IFRS 8 requires disclosure only if those line items are regularly reported to the CODM.

## Disclosure requirements

As well as requiring reconciliations between the operating segment information required and IFRS numbers for certain line items, IFRS 8 also requires certain information across the entity, including revenue by type and country (where material).

# Management basis for identifying operating segments

Summary of evidence received from constituents on the impact of the management approach to identifying operating segments

| Area   | Constituent | Comment  |
|--|-------------|--|
| Identifying the Chief Operating Decision Maker | Auditor     | In Europe entities tend to identify the CODM with a body, while in the US they think more of individuals. There may be cultural differences at play. |

# Internally reported line items

Summary of evidence received from constituents on the impact of only requiring disclosure of internally reviewed line items

| Area   | Constituent     | Comment  |
|--|-----------------|--|
| Are very detailed reporting packages summarised for IFRS 8 purposes? | Preparer        | KPIs evolve over time. New measures of value creation are being developed, and compensation of management will be linked to them.  |
|  | Standard Setter | Even within the same industry, KPIs are not easily standardized. Some people argue that the IASB should not only prescribe a measure of revenue and result, but also intermediate results.   |
|  | Auditor         | One limit of IFRS 8 is that it allows to disclose only one measure of performance. Entities may take different types of decisions based on different performance indicators. In practice, you need to comply strictly with the requirements in paragraph 23. |
|  | Auditor         | Entities generally report non-GAAP measures consistently over time.  |

# Entity-wide disclosures

## Summary of evidence received from constituents on the entity-wide disclosure requirements

| Area                               | Constituent     | Comment  |
|------------------------------------|-----------------|--|
| Information about geographic areas | Standard Setter | IAS 14 required to identify geographical segments based on exposure to risks and rewards different from those in other economic environments. Sometimes it is difficult to apply the 'geographical area' notion in IFRS 8, because the legal jurisdiction of customers may not reflect their area of activity. |
|                                    | Auditor         | Geographic information is, in some cases, not consistent with operating segments. Entities also apply materiality with more consideration of qualitative factors.  |

# Transition experiences

## Summary of evidence received from constituents on their experiences of transition from IAS 14 to IFRS 8

| Area                       | Constituent     | Comment   |
|----------------------------|-----------------|---|
| Comparing IFRS 8 to IAS 14 | Preparer        | A positive assessment has been made of IFRS 8, as it allows management to portray their vision of the business.   |
| Future steps               | Auditor         | Many of the criticisms raised were considered when IFRS 8 was developed. The IASB should focus on real implementation issues, not reconsider the whole approach. Some users would ask for segment information in both the IAS 14 and IFRS 8 formats, but this is unrealistic. |
|                            | Standard Setter | The key term is 'review'. If some constituents feel that IFRS 8 has decreased comparability, there is a need for more insight into management's choices. However, a 2-year period is insufficient to provide evidence for a complete change of the requirements.              |

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# *Towards a Disclosure Framework for the Notes*

# Towards a Disclosure Framework for the Notes



In July 2012 EFRAG in partnership with the French Standard Setter Autorité des Normes Comptables (ANC) and the UK standard setter Financial Reporting Council (FRC) published a Discussion Paper *Towards a Disclosure Framework for the Notes*. The FASB published a discussion paper of their own on the same day.

## Background

The objectives of Discussion Paper are to:

- (a) identify what disclosures are relevant for the notes to the financial statements;
- (b) discuss what materiality means from a disclosure perspective; and
- (c) develop a set of principles for good communication of disclosures.

The objective of the Disclosure Framework is to ensure that all and only relevant information is disclosed in an appropriate manner, so that detailed information does not obscure relevant information in the notes to the financial statements.

## Information to be considered together with this document

To view information related to this discussion paper please access EFRAG's [project webpage](#). The comment period closes on 31 December. Please send comments to [commentletters@efrag.org](mailto:commentletters@efrag.org).

## Key principles in the discussion paper

The Discussion Paper identifies a number of key principles for a disclosure framework for the notes:

- (a) Purpose and content of the notes;
- (b) Setting disclosure requirements;
- (c) Applying the requirements; and
- (d) Communicating information

## Content of the discussion paper

Following a presentation from Holger Obst (ASCG) of the preliminary views gathered by the ASCG so far and of the FASB Invitation to Comment *Disclosure Framework*, EFRAG Senior Project Manager Filippo Poli set out the content of the discussion paper, explaining each of the key principles identified above.

## Open debate

An open debate, including questions on the discussion paper took place. The following pages summarise the key themes of the discussion and comments from constituents.

# The framework

## Summary of feedback received from constituents on the framework proposed in the Discussion Paper

### Comment

There should be minimum disclosure requirements for financial statements. Including additional disclosures should be left to the preparers' judgment.

Some participants noted that a Framework should address all disclosures in financial reporting, and not only the notes to the financial statements. Disclosures about events after the reporting date were also considered to be relevant.

# Setting the requirements

## Summary of feedback received from constituents on setting the requirements

### Comment

Financial statements should be organised by major themes: e.g. risks, impairment etc.

Financial statements should include a high-level summary which would include the key topics and judgements of the period.

One participant replied financial statements were already the result of an aggregation process reflecting a large number of transactions and events on a high level (i.e. represent a summary) and it is undesirable to produce redundant information. He was concerned whether the content of such a high-level summary would be enforceable and on what basis the preparer would determine the content of the summary.

# □ Applying the requirements

## Summary of feedback received from constituents on applying the requirements

### Comment

The accounting policy note should only refer to accounting policies for which options are available. There is no need to copy and paste entire excerpts from the standards into the financial statements unless they are relevant and provide real information.

Some preparers preferred not to leave out any accounting policy, as one or the other might become relevant in subsequent years. The example was given of IAS 39 where only a few categories of assets and liabilities may be relevant in any one year.

The accounting policy note should be rewritten to be more useful and contain less information that is straight from the standards.

# Communicating information

## Summary of feedback received from constituents on communicating information

### Comment

Financial analysts are unlikely to read financial statements in their entirety. They seldom read financial statements in sequence, prefer to go directly to the items of interest to them, and generally use the search function to that effect.

The search functionality helps only if one knows what one is looking for. The example was given of a paragraph about Greece, which, before the world became aware of the financial crisis, might have been buried in the middle of financial statements. Nobody would have thought of searching for the word 'Greece' at the time.