

European Financial Reporting Advisory Group ■

European Outreach Event – Frankfurt/Main
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IFRS 8 *Operating Segments* Post-implementation Review

Post-implementation reviews

- The IASB reviews each new IFRS or major amendment
- Timing of the review
- An opportunity to assess the effect of new requirements
 - the goal of improving financial reporting underlies any new IFRS
 - important or contentious issues identified during development of the standard, or subsequently
 - unexpected costs or implementation problems encountered

The post-implementation review of IFRS 8 is the first



Comparison of IFRS 8 with IAS 14

IFRS 8

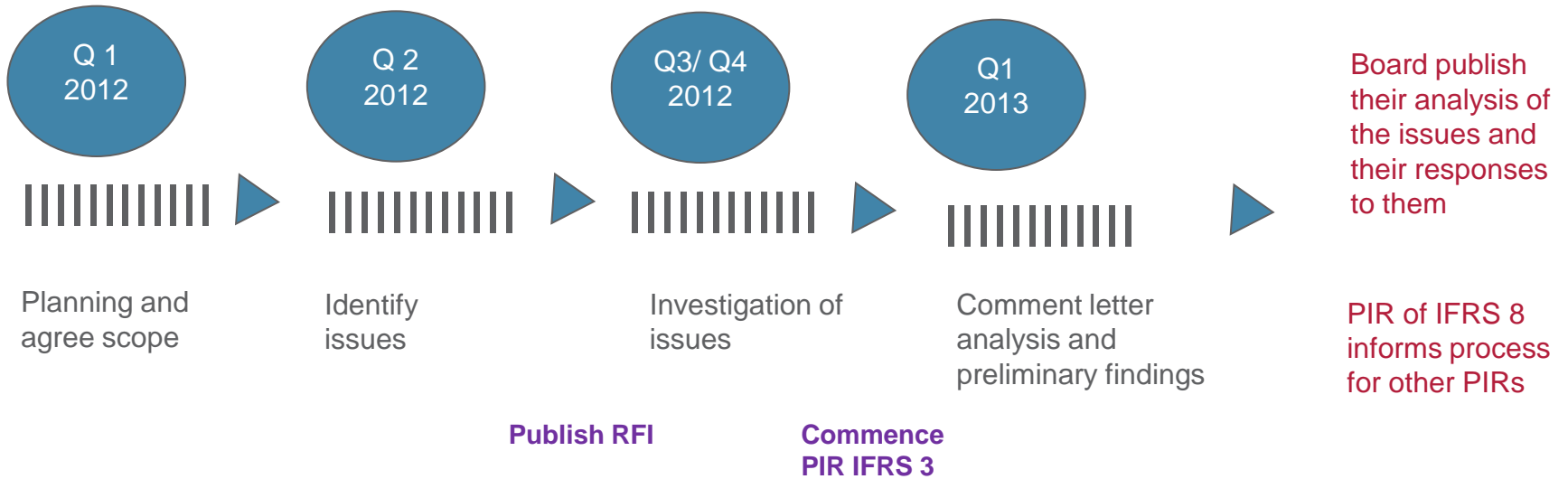
- Segment operations on the basis of internal reporting
- Each reported item is measured on the basis used for management reporting
- Reported items are not defined
- Must be reconciled

IAS 14

- Segment operations by goods and services or by geography
- Each reported item is measured on the basis used in IFRS
- Reported items are defined
- Segment reporting agrees with financial statements

- Expected benefits to preparers of applying IFRS 8
 - management perspective means little incremental costs
 - timely information – interim reporting
- Issues for investigation include:
 - identification of a single chief operating decision maker
 - subjectivity and complexity of segment aggregation criteria
 - commercial sensitivity - effect on smaller entities
 - costs of implementation

What next?



Planning and investigation assisted by IFASS

Global outreach activities

Management basis of identifying operating segments



	Widgets	Home users	EU	Extraction Activities	All Other Segments	Difference to IFRS	Total
Revenue	X	X	X	X	X	X	X
<i>Of which external</i>	X	X	X	X	X	(X)	X
Material expenses:	X	X	X	X	X	X	X
Cost of Sales	X	X	X	X	X	(X)	X
Admin costs	X	X	X	X	X	X	X
Depreciation	X	X	X	X	X	(X)	X
Profits of associates	X	X	X	X	X	X	X
Interest expense	X	X	X	X	X	(X)	X
Interest revenue	X	X	X	X	X	X	X
Income tax	X	X	X	X	X	(X)	X
Segment Profit	X	X	X	X	X	X	X

□ Defining segments

- How easy?
- Any problems?
- Difficult decisions?

Management measurement basis

Widgets Operating Segment	IFRS	To CODM – in IFRS 8 Disclosure
Revenue	15,000	20,000
<i>Of which external</i>	<i>2,000</i>	<i>2,000</i>
Material items of expense:		
Cost of Sales	(4,000)	(6,000)
Admin costs	(3,000)	(2,000)
Depreciation	(1,000)	(1,200)
Share of profits of associates	200	50
Interest expense	(20)	(20)
Interest revenue	100	50
Income tax	(20)	(50)
Segment Profit	7,260	10,830

Non-IFRS Measurement Basis

- How do you make users aware of the measurement basis?
- Are numbers as thoroughly audited as IFRS basis numbers?

CODM reviewed line items



	Widgets	Home users	EU	Extraction Activities	All Other Segments	Difference to IFRS	Total
Revenue	X	X	X	X	X	X	X
<i>Of which external</i>	X	X	X	X	X	(X)	X
Material expenses:	X	X	X	X	X	X	X
Cost of Sales	X	X	X	X	X	(X)	X
Admin costs	X	X	X	X	X	X	X
Depreciation	X	X	X	X	X	(X)	X
Segment Profit	Z	Z	Z	Z	Z	Z	Z

□ Internally-reported line items

- Are the numbers different to those used for economic decision making?

Entity wide disclosures

- Information about products and services
- Information about geographic areas
- Information about major customers

□ Disclosure requirements

- How do you decide what is material enough to be disclosed?
- What have the challenges been?

□ Implementation experiences

- What were your experiences?

□ What we've heard so far - Users

- Difficult to understand aggregation
- Do not understand what is in a segment
- Problems when segments are not businesses (e.g. telecoms, vertically integrated companies)
- Difficult to compare within industries
- Reconciliations are not understandable

What we've heard so far – Preparers and Auditors



- Difficult to identify the CODM in matrix organisations
- Reconciliations are not always fully understandable
- Non-financial Key Performance Indicators are as important as Financial KPIs at the level of the CODM
- Can be difficult to identify what the CODM actually uses in decision making
- Geographic disclosures difficult, especially in the EU and within the financial services sector
- It would be easier if entity-wide disclosures were on the same measurement basis as for operating segments