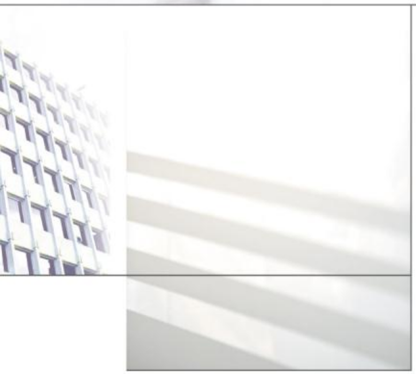


European Financial Reporting Advisory Group

Consolidated Feedback Statement

IFRS 8 *Operating Segments* Post-implementation Review

Autumn 2012 Outreach Events

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. The outreach events were an opportunity for constituents to directly contribute to EFRAG's decision-making process and express their views on topics of interest

For the autumn 2012 outreach events the topics were the Post-implementation Review of IFRS 8 and the discussion paper *Towards a Disclosure Framework for the Notes* issued by the European Financial Reporting Advisory Group (EFRAG), the French Autorité des Normes Comptables (ANC) and the UK Financial Reporting Council (FRC).

Feedback statements for each individual event are available on the EFRAG website.

This consolidated feedback statement summarises the evidence received from constituents as part of the Post-implementation Review of IFRS 8. A consolidated feedback statement on the *Disclosure Framework* Discussion Paper will be available on the outreach events project page on the EFRAG website.

Summary of contents

Outreach events will also be held in spring and autumn 2013. Further information will be made available on the EFRAG website.

Locations and participants

Locations

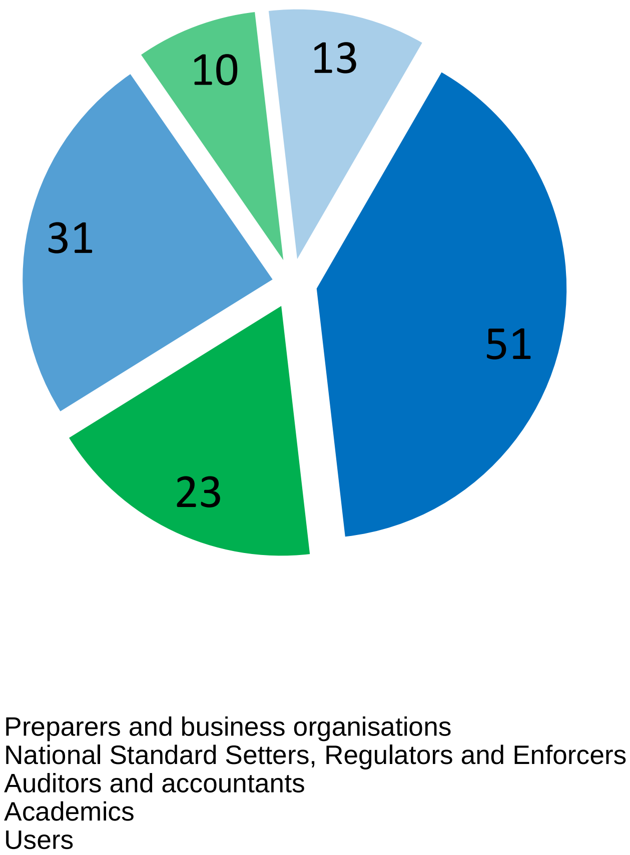
Outreach events to gather evidence for the Post-implementation Review of IFRS were held in partnership with National Standard Setters and user organisations:

- Friday 14 September at a meeting of the EUMEDION Audit Committee in Amsterdam;
- Friday 28 September at a meeting of the EFFAS Financial Accounting Commission in Brussels;
- Thursday 11 October at a European Outreach event in Brussels;
- Monday 29 October in partnership with the Confederation of Danish Industry (DI) and FSR - Danish Auditors in Copenhagen;
- Thursday 8 November in partnership with the Polish Accounting Standards Committee and Ministry of Finance in Warsaw; and
- Tuesday 13 November in partnership with the German Accounting Standards Committee in Frankfurt.

Participating constituents

Participating constituents were from across Europe and a variety of backgrounds, as set out in the table opposite. Experience with IFRS is extensive and most participants were currently involved at a senior level.

Number by background



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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

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	Evidence from Users	Evidence from preparers/auditors/others
Identifying the CODM	It was sometimes not clear how companies identified the CODM. For companies who identified the CODM as the Board of Directors, some users were unclear how this linked with good corporate governance given the inclusion of non-executive directors. It was also noted that there appeared to be an inconsistency in the standard: the role was identified as the CODM, but the examples given of allocating resources and assessing performance could be strategic functions.	Preparers had not seen significant challenges in identifying the CODM. Some preparers based their identification of operating segments not only on how they reported internally, but also on how they communicated with the market.

Management determined measurement basis

Summary of evidence received from constituents on the impact of a management determined measurement basis

Area	Evidence from Users	Evidence from preparers/auditors/others
Aggregation and definitions of operating segments based on reporting to the CODM	A number of companies aggregated business operations into operating segments in a way that did not assist the use of information in valuation models. Examples of these provided by users included: • A company involved in extractive activities which has two segments. One of these segments includes both retail operations and processing activities. These have very different profit margins and growth/risk characteristics. • A vertically integrated clothing and branded goods company with multiple sorts of retail operations (e.g. clothing, homeware). The two reported segments were production and retail, without any information that allowed users to analyse profit margins by type of product.	Multiple levels of aggregation were used for different purposes. The level chosen by the entity for disclosure was a choice. Frequently, when multiple activities were aggregated together into a single reporting segment, this reflected the entity's management structure. Regulatory authorities have highlighted that the requirement to identify an operating segment based on what is reported to an entity's CODM could result in entities including an 'artificial' aggregation level in their corporate structure or reporting. This would allow an entity to define these aggregated businesses as a single operating segment, despite detailed operational reporting and the corporate structure reflecting a different level of disaggregation below what is reported to the CODM. This is especially the case where an entity has identified that their overall board is the CODM.

Management determined measurement basis

Summary of evidence received from constituents on the impact of a management determined measurement basis

Area	Evidence from Users	Evidence from preparers/auditors/others
Aggregation and definitions of operating segments based on reporting to the CODM (continued)	As users are using operating segment information to produce cash flow forecasts, this level of aggregation is not helpful. Multiple users stated that they would like the operating segment information to be provided at a level corresponding to a business that could be valued independently. They said this was not possible whenever such a business was spread across two or more defined operating segments.	Some entities reported to the CODM in multiple ways, but could only choose one as the basis for defining operating segments. The set of numbers chosen was usually the one with the most complete information available. For example, if a company broke down its operations in three different ways for profit and loss analysis, but only one of these had comparable balance sheet information, operating segments were defined on the basis of the breakdown that also included a balance sheet.
Communication with investors	When IFRS 8 was first applied, information in management discussion and analysis was not always consistent with the information presented in operating segments disclosures. For most companies these are now consistent, but management discussion and analysis sometimes contains detail on a different level of aggregation. However it is not always clear what operations are contained within a particular operating segment, especially when it is described by name only.	Companies and auditors usually check that communication is consistent with operating segment disclosures. In some cases, users requested other breakdowns which were also supplied.

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Management determined measurement basis

Summary of evidence received from constituents on the impact of a management determined measurement basis

Area	Evidence from Users	Evidence from preparers/auditors/others
The measurement basis	This was not an area of concern unless the difference to IFRS, as identified by the reconciliation, was material. However, when it was material and a company used multiple measurement bases in its operating segments information, it was very difficult to understand the impact of this on the results of any individual operating segment.	Preparers felt that IFRS 8 was significantly better than IAS 14, as it did not require them to report numbers that were not reported elsewhere in the financial statements or used internally. The majority used a measurement basis close to IFRS to reduce complexity. Some preparers also said that they would continue to use a measurement basis close to IFRS only as long as IFRS continued to reflect the economics of the underlying transactions (for example, the current accounting for operating leases as a lessor under IAS 17, compared to those proposed in the *Leases* project).
Reliability of information	Users did not express any concerns about the reliability of the segmental information.	The numbers were as thoroughly audited as any other numbers in the financial statements. However, in some organisations without comprehensive accounting policies of their own it was not always possible for auditors to challenge the measurement basis: if those were the numbers used by the CODM, then those were the numbers that were required to be reported.

Internally reported line items

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

Area	Evidence from Users	Evidence from preparers/auditors/others
Differences between reporting packages and IFRS 8 disclosures	Disclosed line items sometimes summarised multiple different items. Breakdowns of this summarised information were sometimes made available to analysts on request.	Disclosed line items sometimes summarised multiple different items. The basis for disclosing line items in IFRS 8 is the information that is regularly provided to the CODM. Modern reporting methods mean that the CODM may review information that is not part of a regular reporting pack. However, whether this was done (such as drilling down into reporting packs) depended on the nature of and the choices made by the CODM.

Disclosure requirements

Summary of evidence received from constituents on the disclosure requirements

Area	Evidence from Users	Evidence from preparers/auditors/others
Information about geographic areas	Information on geographic areas was not always included.	In some entities, particularly financial services, it could be difficult to identify which country the revenue related to. This was particularly true within the European single market. For example, a company incorporated in the Netherlands may have a branch in Luxembourg that services a client in Germany. It was felt IFRS 8 was not clear on which country should be disclosed. Some specifically stated the notion of 'country of domicile' was outdated. A global consumer goods company noted that additional data-collection processes had to be put in place to identify the country of revenue.
Information about products and services	Information on products and services was not always included.	Preparers did not understand why the information was on a different measurement basis to the other requirements in IFRS 8, and felt that it would be easier if it were the same.

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Disclosure requirements

Summary of evidence received from constituents on the disclosure requirements

Area	Evidence from Users	Evidence from preparers/auditors/others
Reconciliations between measurement basis and IFRS basis numbers in financial statements	Some companies included measurement basis and consolidation adjustments within 'all other segments' and did not present a separate reconciliation. When reconciliations were prepared, the key use was in identifying if there were material differences between IFRS and the measurement bases used by the entity. If the value of the reconciling items was not material in total, it was not considered further. When there were material reconciling items, it could be very difficult to understand what they were and how they arose.	When deciding on the level of disclosures, a similar level of materiality was used as for the rest of the financial statements. Preparers recognised that reconciliations that they provided were not always easy to understand for users.

Transition experiences

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

Area	Evidence from Users	Evidence from preparers/auditors/others
Implementation experiences	Users have found it difficult to analyse financial statements and derive robust valuations from them. It was not possible to give detailed information on what changes had been made to valuation models due to the long period of time since the standard was adopted.	Implementation was generally simple, but the entity-wide disclosures were more difficult than expected. In some cases additional costs were incurred due to putting in place additional controls.