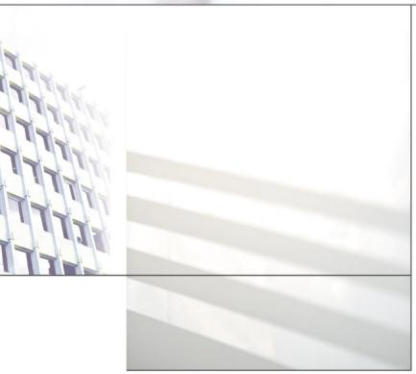


EFRAG

European Financial Reporting Advisory Group

DI

Organisation for erhvervslivet

DANSKE REVISORER FSR*

Joint Outreach Event

Copenhagen

29 October 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, Copenhagen, 29 October 2012

EFRAG, the Confederation of Danish Industry and FSR-danske revisorer, Danish Auditors, organised a joint outreach event, held in Copenhagen on 29 October 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.

Kristian Koktvedgaard, Confederation of Danish Industries and Jan Peter Larsen, FSR-Danish Auditors, hosted the event. Françoise Flores, EFRAG Chairman, gave a summary of EFRAG's 2012 outreach events and the latest progress of IFRS developments, EFRAG positions and activities.

Summary of contents

Organisation for erhvervslivet

DANSKE REVISORER FSR

EFRAG European Financial Reporting Advisory Group

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.*

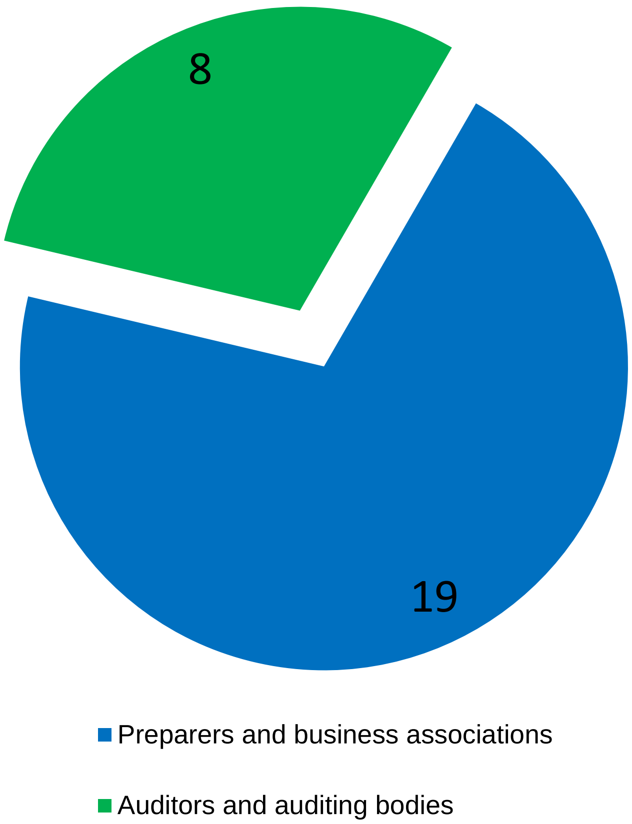
Feedback received from constituents on the EFRAG/ANC/FRC Discussion Paper *Towards a Disclosure Framework for the Notes* will be considered by EFRAG TEG, the French Standard Setter ANC and the UK Standard Setter FRC when deciding future steps for the project.

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 extensive experience with IFRS and most were currently involved at a senior level.

Number by background



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
Changes in identified operating segments from IAS 14	Preparer	There were no significant changes since the introduction of IFRS 8, although there had been a debate about the level of disaggregation.
	Auditor	In Denmark there had not been major changes from IAS 14, but there were questions on the criteria to aggregate and disaggregate segments.
	Auditor	The change may have forced smaller companies to disclose a higher number of operating segments because materiality is smaller than it would be for larger companies.
Identifying the CODM	Preparer	It had been easy to define the segments because that is how internal reports were prepared. It was more difficult to identify the CODM because the single set of internal reports were widely used. A change in internal reporting should not lead to a change in defined operating segments.

Management determined measurement basis

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

Area	Constituent	Comment
What measurement basis is used	General discussion - preparers	The measurement basis used was very close to IFRS as it was easier if all numbers came from a single place. The result of this was that there were very few reconciling items.
	General discussion – auditors	A measurement basis close to IFRS was most frequently seen, but at least one company used US GAAP for reporting its operating segments.
	Preparer	Having the same measurement basis for internal and external purposes simplified the reporting process. Keeping the same measurement basis for internal and external purposes would be possible only if IFRS continued to provide a faithful representation of the economic activity.

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
Is the information the same as that used by management	Auditor	There was at least one company whose only reported segmental information was revenue.
	Auditor	As modern financial reporting systems allow management to obtain many different sets of data, it was difficult to assess exactly what information top management reviews.
	Preparer	Different measures of profit may be justified in different industries.
	General discussion	As well as measures such as profit and loss, management also use cash flow information to make decisions and judge performance. It is difficult to identify what information is regularly reviewed to make decisions about allocation of resources.
Use by users	Preparer	The standard, and the principle of the management perspective, was good. Users asked questions about changes, for example when two small line items were aggregated, analysts asked why. However users were focused on the income statement, with limited interest in balance sheet items.

Entity-wide disclosures

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

Area	Constituent	Comment
General discussion	Auditor	Discussions on what was material in this context were frequent and as there was no guidance in the standard, they had to look at other IFRSs.
	Auditor	There was a confidentiality issue, especially for small companies that are highly dependent on a single customer. As a result of this, management resisted providing information, as even if names are omitted readers of the financial statements would be able to identify the counterparty. Sometimes the customers request that the information is not disclosed.
	Preparer	The requirement that entity-wide disclosures were made on the same basis as the primary statements was contradictory when compared with the key basis of IFRS 8 as it might not be consistent with how management view the business.
	General discussion	It would be good to know where the additional disclosure requirements had come from – were they to reflect a request from users?
	Preparer	The required volume of disclosures were too much – and part of the larger problem on disclosure overload. It would be good if the IASB were to ask users what information they would be prepared to pay for.
Removal of geographic information	Preparer	The standard still required the disclosure of some information on a geographic basis, although the information it produced was not always meaningful.
	Preparer	The current discussions on country-by-country reporting could possibly lead the IASB to reconsider the decisions made when IFRS 8 was developed.

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 <u>all</u> and <u>only</u> 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.

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 an introduction from EFRAG Chairman Françoise Flores and explanation of the motivation behind the EFRAG/ANC/FRC discussion paper, 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

Constituent	Comment
Preparer	The IASB should work on the framework for standards, including the conceptual framework, rather than being a ‘standards factory’.
Auditor	Materiality is strongly linked to relevance of information.
Auditor	The sooner a proper framework for disclosures can be developed the better, but speed should not impair the quality.

Setting the requirements

Summary of feedback received from constituents on setting the requirements

Constituent	Comment
Auditor	When setting accounting standards a good rule of thumb should be that for every one new disclosure, two existing disclosures are removed.
Preparer	Standard setters should move away from ‘one size fits all’ requirements. Analysts seldom ask questions about notes. Analysts are most interested in remuneration, impairment and operating segments.
Auditor	Preparers believe that the number of disclosures must be reduced. It is not acceptable to have 200 pages of disclosures for a small company. It is important that the definition of materiality comes from the standard setter.
Preparer	The efforts of EFRAG/ANC/FRC to look at how disclosures should be set is appreciated. Part of the problem lies with the language of standards, such as ‘shall state’. For example, for pension liabilities this results in one and a half pages of disclosures for a very small company.
Preparer	Wording should be used carefully in standards. For instance, in IAS 34 *Interim Financial Reporting* the standard uses the term ‘may’ – and this is not sufficient to withstand the pressure to disclose from regulators.

Different approaches and differential disclosure regimes

Summary of feedback received from constituents on the different approaches and differential disclosure regimes

Constituent	Comment
Preparer	Different cultures result in different expectations and the discussion is a symptom of IFRS being a success. He would not support industry specific requirements – apart from financial services.
Auditor	Industry specific requirements are not needed, apart from for financial services. There is a danger that disclosures have been aimed at financial services companies (for example IFRS 7 *Financial Instruments: Disclosures*) but have caught everybody as they were not industry specific.
Preparer	Differential disclosure regimes would be too complicated to implement, and distinguishing based on materiality may be the appropriate answer. However, in order to determine what was material, standard setting activities would be required to better articulate materiality.

Applying the requirements

Summary of feedback received from constituents on applying the requirements

Constituent	Comment
Auditor	Auditors are not able to advise preparers to eliminate much because of scrutiny from regulator. It is important to get common ground between standard setters, preparers, auditors and regulators. An example of this is the meaning of ‘shall’ in a standard.

Communicating information

Summary of feedback received from constituents on communicating information

Constituent	Comment
Preparer	It is important that financial reporting should be ‘telling a story’ and that the future of setting disclosure requirements is for them to be based on general requirements. Currently financial statements are produced by a group accounting department. If they were to tell a story effectively, this would require more involvement from other functions, such as investor relations.
Preparer	Entities should focus more on the objective of disclosures and not just perform an exercise in compliance.