

July 2013

Report and Feedback Statement

# Post-implementation Review: IFRS 8 Operating Segments





# Post-implementation Review: IFRS 8 *Operating Segments*

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# Overview

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## Overview of our post-implementation review process

- The requirement to carry out a post-implementation review was added to our due process by the Trustees in 2007
- We review major new Standards, or significant amendments to existing Standards, two years after the Standard has been applied internationally.
- The post-implementation review is an important tool in our maintenance of IFRSs.
- There is no presumption that a Standard will be changed as a result of a post-implementation review; the normal criteria for adding a proposed amendment to our agenda will still apply.
- In 2012 we consulted widely on what the objective of our post-implementation reviews should be and how they should be carried out.

## Timeline for the post-implementation review of IFRS 8

Q1 2012	IASB conducts targeted outreach to help it set an objective and scope for the post-implementation review of IFRS 8.
July 2012	Request for Information (RFI) published.
July–November 2012	Extensive and focused consultation with stakeholders and review of academic research.
November 2012	RFI comment deadline—62 comment letters received.
January 2013	Comment letter analysis, summary of outreach conducted and review of academic research presented to the IASB.
April 2013	Information received and steps taken in the post-implementation review reviewed by the Trustee’s Due Process Oversight Committee.
April 2013	IASB considers, and endorses, a summary of the feedback received on the implementation of the Standard and the post-implementation review process itself.
July 2013	IASB publishes a Report and Feedback Statement

# Summary findings and next steps

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## How we applied our post-implementation review process to IFRS 8

- IFRS 8 *Operating Segments* was the first Standard that was subject to a post-implementation review by the IASB.
- We changed our approach in 2012 as a result of consultation when we planned this, our first, post-implementation review.
- We broadened the scope of the post-implementation review and made the process more transparent through a formal public consultation process.
- Commentators agreed with the broader scope of the post-implementation review and welcomed the ability to comment on all aspects of the Standard.
- The post-implementation review has highlighted some aspects of IFRS 8 where further clarification could be provided.

## Summary of our findings about IFRS 8

We think that the information provided to the post-implementation review confirmed many of the IASB's expectations when it issued the Standard. The use of the management perspective did make communication by management with investors easier and the incremental costs of the implementation of IFRS 8 were low. In addition, the Standard achieved convergence with Standards issued by FASB, as expected, and at low cost.

Preparers generally think that the Standard works well. Auditors, accounting firms, standard-setters and regulators generally support the Standard, but have made some suggestions to improve its application. Views on IFRS 8 received from investors were mixed.

Some investors prefer to have information about how management views the business, as IFRS 8 requires. When all aspects of an entity's reporting align so that operating segment information in the financial statements, management commentary and presentations to analysts all agree, this provides more detailed, integrated information to them. In addition, the fact that the IFRS 8 information is audited increases the value that investors attribute to the other sources of consistent segment information.

Other investors, however, are wary of a segmentation process that is based on the management perspective. Those investors mistrust management's intentions and sometimes think that segments are reported in such a way as to obscure the entity's true management structure (often as a result of concerns about commercial sensitivity) or to mask loss-making activities within individual segments.

# Summary findings and next steps

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This disparity of views was subject to some geographical variation. Responses are most mixed within Europe. Other regions, such as Japan, New Zealand and South Africa, generally strongly support the management perspective. The variation in response may be due, in part, to perceived differences in corporate culture or variations in the enforcement activities of local regulators.

Responses about the amount of geographical information reported in financial statements varied. Some think that geographical segmentation should be a separate, additional requirement. Others think that existing geographical disclosures may not be useful if they do not distinguish between regions in a way that is useful to investors, ie in a way that is based on economic characteristics rather than geographical proximity. The requirement to report revenue by customer's attributed country, introduced by IFRS 8, is considered useful by many.

When designing our first post-implementation review, we extended its scope to provide a comprehensive review of segment reporting rather than limiting the evidence gathered to a comparison with the previous Standard IAS 14 *Segment Reporting*. Consequently, a number of the comments received, such as some investors' views that it is difficult to compare reported segments between different entities, would often apply equally to information reported in accordance with IAS 14.

Finally, we note that, because internal reporting had been modelled on the previous Standard, reported segments in some jurisdictions did not change. Our review of academic research confirmed that although the number of reported segments did not change in many jurisdictions, when the number of reported segments did change, the number generally increased.

Our detailed findings are recorded in the Feedback Statement on the implementation of IFRS 8 on pages 18-25.

## Our assessment of the effect of implementing IFRS 8 and next steps

Taking into account all of the evidence collected, our conclusion is that the benefits of applying the Standard were largely as expected and that overall the Standard achieved its objectives and has improved financial reporting. It is clear, however, that some investors have concerns about the information provided when segment information is disclosed in accordance with IFRS 8.

We do not think that these concerns warrant a revision of the principles on which the Standard is based, because the evidence provided to us does not suggest that there are any significant failings in the Standard.

We do, however, think that there are some issues that could be considered for improvement by the IASB. As a result of the information provided to us, we have identified some areas that we think warrant further investigation. These areas are identified in the Feedback Summary in this paper and are summarised in this table:

## Areas for potential improvement and amendment

Issue raised	Participants' suggestions
<b>Requests for implementation guidance</b>	
The concept of an identifiable chief operating decision maker (CODM) is confusing and outdated. Identification of the CODM is difficult in practice.	Participants suggest that we provide more guidance or replace 'CODM' with a more common term, such as 'key management personnel' (KMP) as defined by IAS 24 <i>Related Party Disclosures</i> or 'governing board' as used in the <i>Conceptual Framework</i> . We note that KMP includes non-executive directors, which is at odds with an 'operating decision making' function.
Some preparers are uncertain how the reconciliation should be presented and how reconciling amounts should be disclosed. Some investors find the items included in the reconciliations difficult to understand.	Some regulators and preparers suggest that we should provide application guidance that includes examples of such a reconciliation.
<b>Requests for improved disclosures</b>	
Any change in the basis of segmentation from one year to the next results in the loss for investors of valuable trend information for that entity.	In the event of a reorganisation, investors suggest that 3-5 years' comparative information for segment information should be presented.
Many entities present different definitions of 'operating result' or 'operating cash flow', making comparison difficult between entities. Investors report that important line items needed to derive these sub-totals are often not separately reported.	Investors would like us to require disclosure of some defined line items in order that investors can calculate their own sub-totals for operating result or cash flow. Some investors think that non-IFRS defined sub-totals should be labelled 'adjusted'.
Many investors think that operating segments are aggregated inappropriately, reducing the value of the information presented. Some preparers find the aggregation guidance difficult to apply in practice.	It has been suggested that we should provide guidance on the nature of 'similar economic characteristics' and reconsider the use of quantitative thresholds in order to help preparers apply the aggregation guidance more consistently and aggregate operating segments only when appropriate.
Some investors cannot understand how reconciling amounts relate to an individual segment.	Many investors would like reconciliations prepared segment-by-segment, but others warn about allocating costs to individual segments when this cannot be done on a systematic basis.

These issues will be researched by the staff and their findings and recommendations presented to a future meeting of the IASB.

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## Assessing potential issues for amendment

The IASB and the IFRS Interpretations Committee are responsible for the maintenance and improvement of IFRSs. The initiation of a Standards-level project would be undertaken as part of our agenda consultation process but narrow-focus amendments are a normal part of our maintenance procedures. The first stage in investigating the issues raised by the post-implementation review would be to assess them against the maintenance agenda-setting criteria set out in the *Due Process Handbook*.

The assessment of these issues will also need to be carried out within the context of our more general review of disclosure requirements. Financial reports are the main communication tool for many entities and segment information is a key input into most investors' modelling of future results and cash flows, but consultation through the disclosure forum indicates that there is increasing concern about disclosure overload. Any proposals to change disclosure requirements in IFRS 8 would have to take those concerns into account.

## Effect of reviewing a Standard that is converged with another GAAP

IFRS 8 is a Standard that is substantially converged with Standards issued by the FASB. The Financial Accounting Foundation (FAF) has also carried out a post-implementation review on the FASB's Standard on operating segments. That report, *Post-Implementation Review Report on FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information*, was published earlier this year.

Our assessment process of the need for any improvements to a converged Standard will need to take additional factors into consideration. In particular, our assessment will be affected by:

- (a) whether we and the FAF have identified the same issues;
- (b) whether we and the FASB have ascribed the same priorities to those issues;
- (c) what form any amendment could take (annual improvement; narrow-focus amendment) and how our two due processes compare in these approaches; and
- (d) what form of additional guidance or action would most help our respective constituents.

The FASB have stated in their response to the FAF's report on the implementation of SFAS 131 that:

*We will discuss the Report's findings in detail with the FAF post-implementation review team and with the IASB staff to coordinate an evaluation of the issues in an attempt to maintain a converged approach to segment reporting. We will weigh the desire to remain converged with the FASB's other priorities and the demands on our resources.*

At its April 2013 meeting, the IASB concluded that the development of any proposed amendment to an IFRS that is converged with the equivalent guidance in US Generally Accepted Accounting Principles, proposed as a result of the post-implementation review, should include active liaison with the FASB.



# Background to IFRS 8

Segmental analysis is fundamental to investors' understanding of an entity's performance and prospects.

## Convergence with US GAAP

The project to develop IFRS 8 was added to the IASB's agenda in September 2002 as a short-term convergence project, conducted jointly with the FASB. The objective of the project was to reduce the differences between IFRS and US GAAP that were capable of resolution in a relatively short time and that could be addressed outside of the major projects.

As part of the project, the IASB identified the differences between the existing Standard, IAS 14 *Segment Reporting*, and the FASB Standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*.

IAS 14 and SFAS 131 differed in three main respects:

- (a) *Identification of segments*: IAS 14 required segments to be identified on the basis of differences in the risks and returns of either the products and services provided (a 'business segment approach') or the economic environments in which the company operated (a 'geographical segment approach'). SFAS 131 required operations to be reported 'through the eyes of management'. The segments identified in accordance with the requirements of SFAS 131 are those segments that are used internally and that are reviewed by the CODM when allocating resources.
- (b) *Measurement basis*: IAS 14 required the amounts disclosed for each segment to be measured on an IFRS basis (ie consistently with the basis used in the rest of the IFRS financial statements). SFAS 131 required the amounts disclosed for each segment to be measured on the same basis as that used internally by the CODM when allocating resources.
- (c) *Reported line items*: IAS 14 required a company to disclose specific line items for each reported segment. SFAS 131 required a company to report only those line items that are regularly reported to the CODM.

These main differences between SFAS 131 and IAS 14 are summarised in the table below:

	SFAS 131	IAS 14
<b>Basis on which reportable segments are identified</b>	Segments operations by internal reporting used by the CODM in allocating resources.	Segments operations by the goods and services provided to customers or by geographical region.
<b>Measurement basis of required disclosures</b>	Each reported line item is measured on the basis used for reporting to the CODM.	Each reported line item is measured on the basis used in preparing the group's financial statements, in accordance with IFRS.
<b>Consistency with financial statements</b>	Reported line items are not defined. Their basis should be explained.	Reported line items such as profit are as defined in the financial statements.

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## Expected effect of the requirements of IFRS 8

When we developed IFRS 8 we thought that it would allow investors and other users of financial statements to see the entity's operations from a management perspective. This would enable investors to understand the risks that management face each day and to assess how well those risks are managed.

In 2006, we consulted publicly through a comment letter process on our proposals about operating segments. The comment period ended on 19 May 2006 and we received 182 comment letters. We received diverse views about the benefits and disadvantages of using the management perspective but our assessment when we issued IFRS 8 was that the benefits associated with the management-perspective approach would outweigh any disadvantages.

A summary of some of the expected benefits and disadvantages of applying the proposed Standard at the time it was issued are shown in the table below:

Benefits
Achieves convergence with US GAAP
'Management eyes' perspective would improve users' ability to predict future results and cash flows
Highlights risks that management think are important
Use of management reporting would result in increased interim reporting, because the information would be readily available.
Disadvantages
Inconsistent segments may be reported between entities, because the internal organisation of each entity might differ
Frequent internal reorganisations would result in a loss of trend data
Geographical analyses would not be available because IFRS 8 does not require that a separate geographical analysis is presented
IFRS 8 requires that the segment information disclosed is measured on the basis used for management reporting. Non-IFRS measures used by management may not be understood

# Consultation and evidence gathered

## Sources of input to the post-implementation review process

The first phase of the post-implementation review of IFRS 8 consisted of an initial assessment of the issues that arose on the implementation of IFRS 8. This assessment was conducted in the first half of 2012 through a review of available literature and educational materials and by consultation in more than 30 outreach meetings. This allowed us to compile a list of issues for subsequent investigation and to identify some preliminary key messages about the effect of implementing IFRS 8 so that we could establish an appropriate scope for the review.

By mid-2012 the post-implementation review process had entered the information-gathering phase. The post-implementation review process is designed so that we gather evidence from which the IASB can draw conclusions about the effect of implementing IFRS 8. There were three principal sources of this evidence for the post-implementation review of IFRS 8:

- public consultation through an RFI;
- outreach conducted; and
- a review of existing literature and academic research.

## Public consultation through a Request for Information

In July 2012 the IASB published for public comment an RFI, with comments due by 16 November 2012.

The IASB received 62 comment letters, all of which are available on the IASB website:  
<http://www.ifrs.org/Current-Projects/IASB-Projects/PIR/IFRS-8/comment-letters/Pages/default.aspx>

The names of responding organisations are listed on page 26. The IASB discussed an analysis of the comment letters in January 2013.

## Respondents to the Request for Information

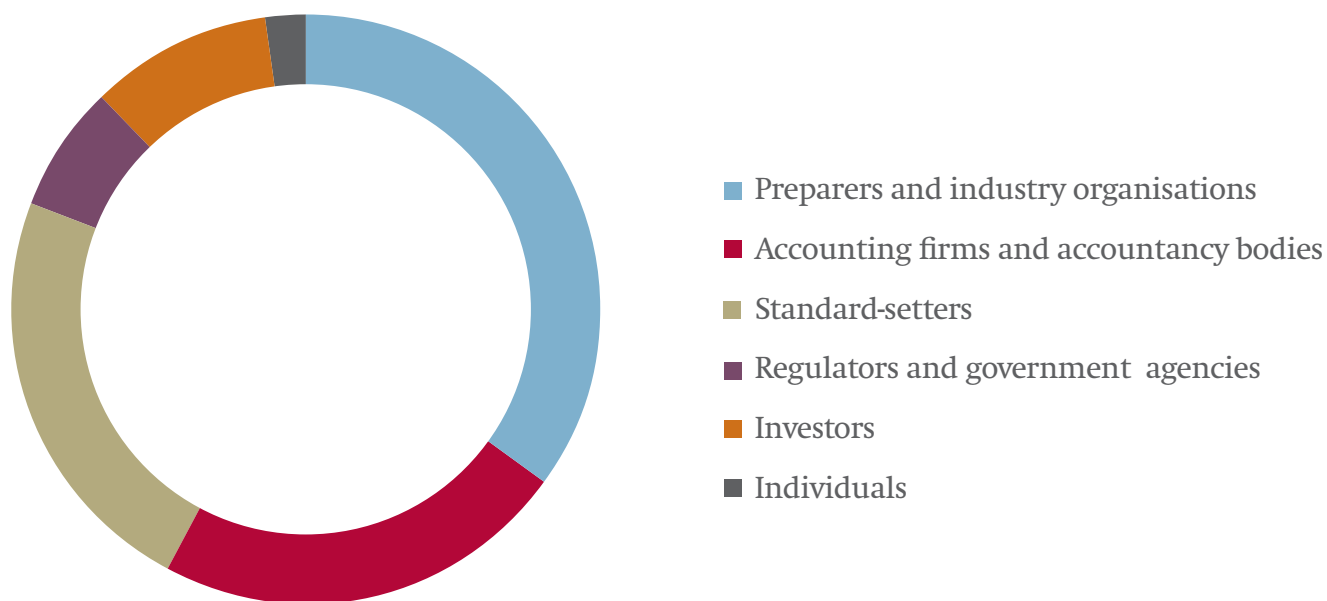
All geographical regions were represented in the responses:

Geographical region	Number of respondents	Percentage of respondents
Europe	33	53
Asia–Oceania	11	18
Global	7	11
Latin America	5	8
North America	4	7
Africa	2	3
<b>Total</b>	<b>62</b>	<b>100</b>

## Consultation and evidence gathered continued

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Types of respondents:

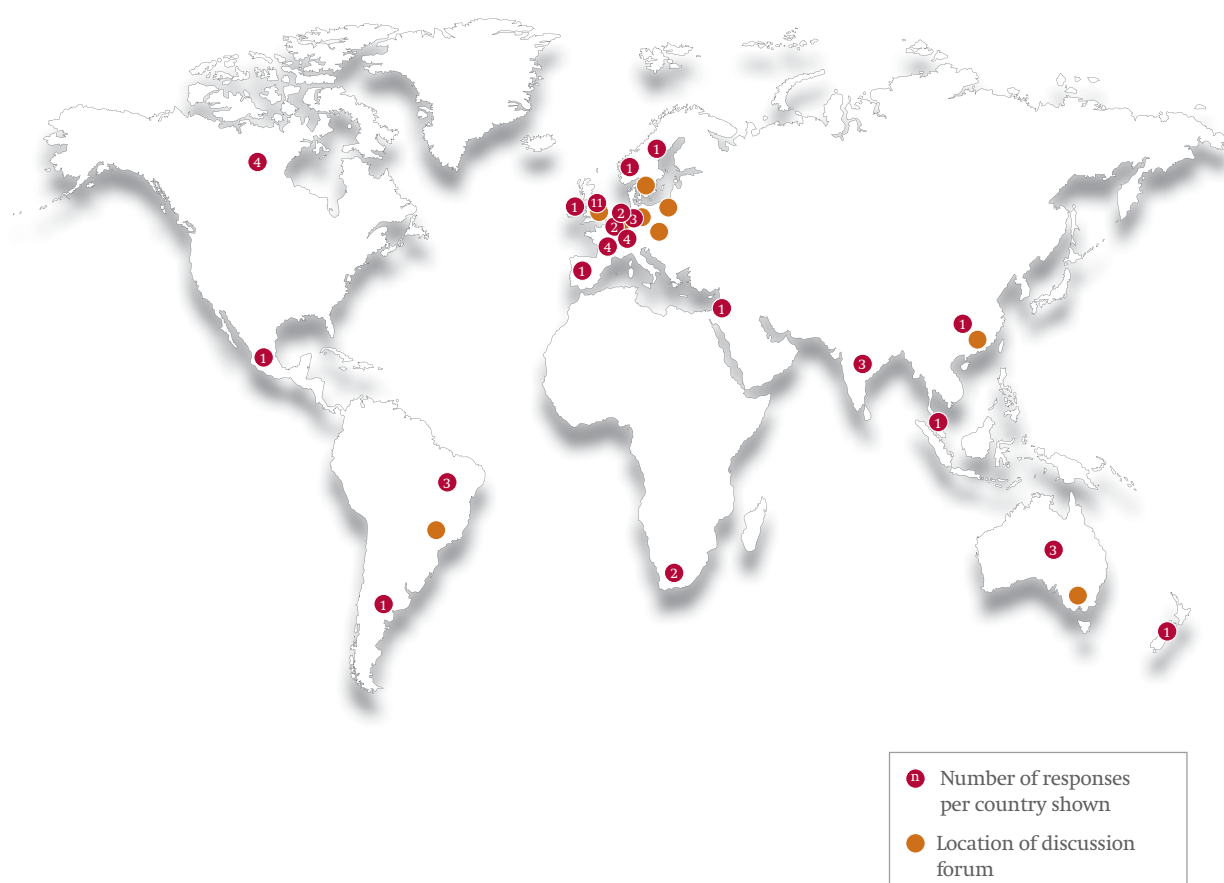


### Respondents to the Request for Information continued

Most participants in the post-implementation review liked the approach used in the RFI, which is based on a limited number of open questions—they think that this approach enabled them to provide more relevant answers. In addition, the broader approach, which is now part of our due process, allowed respondents to suggest improvements as well as allowing them to comment on whether the Standard worked as intended. This resulted in a wide range of responses to the RFI.

## Outreach activities

Throughout the second half of 2012, members and staff of the IASB took part in many outreach activities to raise awareness of this process across all interested parties and to collect information about the effect of implementing IFRS 8. In addition, many national standard-setters and regional forums undertook a number of local initiatives to widen the range of our consultation. In this second, evidence-gathering, phase the members of the IASB and staff took part in 36 outreach events that took a range of forms, including discussion forums, conferences, webcasts and individual meetings. This outreach was facilitated locally by national and regional standard-setters, academics and regulators.



\* In addition, we received comment letters from organisations such as accounting firms and industry groups that represent global interests or those of a particular region. Global: 7, Europe: 3 and Asia-Oceania 1.

# Consultation and evidence gathered continued

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## Outreach to investors

The objective of financial reporting is to provide information to investors to help them make decisions about providing resources to the entity.

Investors and financial analysts are primary users of segment information and were therefore important sources of input to the post-implementation review process. The IASB received six comment letters from investors and analysts, all of which were from representative bodies and therefore reflect the views of more than one entity or individual. Although letters from investors and analysts only accounted for 10 per cent of the comment letters received, this is a high proportion when compared with other IASB consultations.

Because of the importance of investors and financial analysts as the primary users of financial statements, we developed more focused alternatives for engaging with them. We undertook a number of outreach activities with investors in order to ensure that we received an adequate level of information about the effect of segment reporting on their activities. In total we attended 17 outreach events solely with investors, 8 of which were to define the areas for investigation and 9 of which were to collect information about the effect that applying IFRS 8 had on financial reporting. Outreach events were held with a number of user representative groups, including:

- (a) the Capital Markets Advisory Committee (CMAC);
- (b) the CFA Society of the UK;
- (c) Corporate Reporting User Forum (CRUF), UK;
- (d) Corporate Reporting User Forum (CRUF), South Africa;
- (e) the European Financial Reporting Advisory Group (EFRAG) user group;
- (f) the Eumedion Corporate Governance Forum;
- (g) the European Federation of Financial Analysts Societies (EFFAS);
- (h) the Japanese investor forum; and
- (i) the User Advisory Council of Canada.

In addition to these investor-focused events, investors also participated in other discussion forums, conferences, video links and other outreach events.

We did not target investors in the US directly as part of our post-implementation review because they were targeted separately as part of a simultaneous review of operating segments carried out by the FAF. The survey published by the CFA Institute in 2012 on segment reporting was assessed as part of the post-implementation review, thereby providing us with the views of those investors.

Information about investors' views has also been strengthened by including the results of investor surveys and investor-led research (such as those of the CFA Society of the UK, the CFA Institute and la Société Française des Analystes Financiers (SFAF)) in our literature review.

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## Review of academic research and related literature

As part of the post-implementation review process, a review was also conducted of academic research and other available literature. This review was completed in December 2012 and presented to the IASB at its meeting in January 2013.

Two types of academic studies were included in the review, published papers and working papers that are work in progress. The review of existing literature also included other reports on the effects of implementing IFRS 8 that had been provided by a number of organisations.

After the introduction of any new Standard it takes time to develop research on the effect of its application. We conducted a comprehensive international review of the literature available and identified 30 studies, predominately in English, for review. In the future we intend to signal topics for research at an earlier stage to encourage academics to contribute to our standard-setting process.

The studies included in our review consisted of:

Type of study	Number
Published work	5
Working papers	15
Other literature	10
TOTAL	30

Further details about these studies are included on pages 27-28.

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## Adequacy of this input

The post-implementation review of IFRS 8 was discussed frequently at the public meetings of the IASB:

Meeting date	Topic	Paper number
March 2012	Update on progress	8
May 2012	Issues identified for investigation	12
June 2012	Request to publish the RFI	12A-B
January 2013	Preliminary findings	6A-C
April 2013	Summary of findings and report on the post-implementation review	12A-D

The papers discussed, and the recording of each public meeting, are available on the project page of our website: <http://www.ifrs.org/Current-Projects/IASB-Projects/PIR/IFRS-8/Pages/IFRS-8.aspx>

The evidence gathered, whether from responses to the RFI, outreach or our review of available literature, was discussed by the IASB at its April 2013 meeting. At that meeting the IASB decided that it had received sufficient input into the post-implementation review process and that the information received from the post-implementation review of IFRS 8 was:

- balanced with respect to types of participants and geographical regions; and
- sufficient to form the basis for the IASB's report on the post-implementation review of IFRS 8.

The IASB concluded that the approach used for the post-implementation review of IFRS 8 provided an open forum for discussion of the effects of implementing the Standard and provided sufficient information for the IASB to complete its review .

At that meeting the IASB also discussed the due process requirements of the post-implementation review and lessons learnt about the post-implementation review process and received feedback from the April 2013 meeting of the Trustees' Due Process Oversight Committee (DPOC).

The DPOC had been consulted at each step of this first PIR and was very supportive of the changes that were made to the approach to broaden its scope and increase the transparency of the evidence-gathering process. A summary of the April meeting of the DPOC can be found on our web site: <http://www.ifrs.org/DPOC/meetings/Pages/DOC-Apr-13.aspx>

More detailed feedback from the review of the implementation of IFRS 8 and the post-implementation review process are presented in the following sections.



# Feedback on the implementation of IFRS 8

# Feedback Statement on the implementation of IFRS 8

## Identifying and reporting segments based on the management perspective

We asked about respondents' experience of identifying and reporting segments based on the management perspective approach—how management disaggregate the business when making decisions. We expected that the management perspective would allow investors to better understand the entity's business and would make it easier for management to communicate with investors and lenders.

Messages received	Our responses
<p><b>Lack of change by some entities</b></p> <p>Reported segments did not change in some jurisdictions because internal reporting had been modelled on the form previously used in the financial statements when reporting in accordance with the previous Standard, IAS 14.</p>	<p>We were not surprised by this observation. This effect had been identified in our initial assessment and was also reported in some academic research.</p>
<p><b>Link with management commentary and presentations</b></p> <p>When the basis of segmentation used in the financial statements agrees with the management commentary and financial presentation, this results in cross-validation of the three sets of data and adds depth to the information provided. In cases, however, in which the segment information and management commentary are prepared on different bases, both investors and regulators expressed concern at the difference.</p>	<p>When we issued IFRS 8 we expected that the operating segment information would agree with the management commentary and that the management commentary would add greater depth to the segment information presented in the financial statements. A number of regulators have reported that they investigate instances where the two bases of segmentation used are different. Some jurisdictions report that continued enforcement has improved the alignment of the management commentary and the segment information.</p>
<p><b>Increase in reported segments</b></p> <p>Academic research shows that fewer entities reported only one segment after the implementation of IFRS 8, but otherwise most companies reported no change in the number of reported segments. Companies that did report a change generally reported an increase in the number of reported segments.</p> <p>Nonetheless, investors would like less aggregation and would like the number of reported segments to increase.</p>	<p>When we issued IFRS 8 we expected that there would be fewer single-segment entities when the Standard was applied because we did not think that many entities were managed as a single segment. We think that the small increase in reported number of segments will provide more detailed, and hence more useful, information for investors.</p> <p>We note that investors would like reported segment information to be as detailed as possible.</p>

Messages received	Our responses
<p><b>Comparability between entities</b></p> <p>Many respondents expressed concern that segments are not comparable across entities, even within the same industry.</p>	<p>We know that comparability between entities is a key requirement of investors. Many investors accept, however, that comparability can rarely be achieved no matter how the basis of segmentation is defined or prescribed. This is because the individual components of different businesses will not be identical and the relative importance and materiality of similar components will differ between entities.</p>
<p><b>Loss of trend data on reorganisation</b></p> <p>Trend analysis is an important tool for investors. We received many examples from participants of entities that had changed their segments from year to year since the implementation of IFRS 8. This prevents investors from carrying out trend analyses as part of their decision-making process.</p>	<p>IFRS requires that comparative information is restated whenever there is a restructuring. We accept, however, that information about trends by segment is particularly useful to investors. Some respondents have suggested that the number of comparative periods required for this information should be increased to 3 or 5 years, but we are concerned that this might place an unreasonable burden on preparers. We think that this is a potential topic for further consideration by the IASB, as part of our disclosure project.</p>
<p><b>Concerns about commercial sensitivity</b></p> <p>Several respondents had concerns about the release of commercially sensitive information. This view was especially prevalent in jurisdictions with smaller capital markets and for smaller listed entities, often referred to as mid-caps.</p>	<p>IFRS 8 does not include an exemption from disclosure on the grounds of commercial sensitivity. Although we are sympathetic to the specific concerns raised, we think that a competitive-harm exemption is inappropriate because it would provide a means for broad non-compliance with the Standard.</p>

# Feedback Statement on the implementation of IFRS 8 continued

## Use of non-IFRS measures

We asked respondents about the effect of using non-IFRS measures in segment reporting. In accordance with IFRS 8, amounts reported for operating segments are measured in accordance with the basis used for internal reporting. When we issued the Standard, we thought that the use of internally reported measures would highlight the risks that management face every day and this would give investors a greater understanding of how those risks are managed.

Messages received	Our responses
<p><b>Non-IFRS measures are not well explained</b></p> <p>Most investors and regulators think that, if used, non-IFRS measures need to be clearly explained. One investor suggested that whenever a reported line item is defined or measured on a non-IFRS basis, it should be described as 'adjusted'.</p>	<p>The Standard requires that the basis of measurement used is disclosed, but we accept that explanations of these bases may not always be clear. We agree that describing non-IFRS line items as 'adjusted' might be useful. We think that this is a potential topic for further consideration by the IASB.</p>
<p><b>Non-IFRS measures are confusing</b></p> <p>Many investors think that non-IFRS measures can be helpful in communicating information about operating risks and performance and in providing a useful link between the IFRS results and non-IFRS measures used in the management commentary. Others think that the use of non-IFRS measures is confusing and can result in very complex reconciliations of segment information with the IFRS profit and loss.</p>	<p>Although we accept the comments made, the majority of respondents report that non-IFRS measures are rarely used except for proportional consolidation and in cases of disagreement with IFRS. By contrast, the use of sub-totals not defined by IFRS, such as EBITDA, is common in performance reporting and prevents comparison across entities. (See page 21 for the effect of presenting internally defined line items, such as operating result.)</p>
<p><b>Measure at amounts attributable to shareholders</b></p> <p>Group structure is highly relevant to some analysts. These investors would like to know what proportion of the reported segment numbers is attributable to shareholders of the entity. They prefer segment reporting to be prepared on a 'proportionate share' basis, which makes it clear how much of each segment's results is attributable to the common shareholder.</p>	<p>It has been reported to us that some entities already provide this information voluntarily, but we are concerned that requiring this disclosure might deprive some investors of information about the individual operating segment as a whole and might also place an unreasonable burden on preparers.</p>
<p><b>Use to disagree with IFRS</b></p> <p>A few preparers use segment reporting, and the ability to use non-IFRS information, in order to report transactions as they think they should be reported, rather than reporting these transactions in accordance with IFRS. These respondents note that in some jurisdictions segment information may not comply with IFRS with regard to, for example, IFRIC 15 <i>Agreements for the Construction of Real Estate</i> or for transactions that are subject to rate regulation.</p>	<p>We are naturally concerned that some think that non-IFRS information may provide a better depiction of some transactions. The core principle of the Standard, however, is that investors should be presented with the information used by management. Informing investors that management use non-IFRS measures is useful information in itself and the reconciliations to the IFRS line items will quantify how these bases differ.</p>

## Use of internally reported line items

We asked a question about the effect of reporting internally reported line items. When we issued IFRS 8 some investors were concerned that some line items that they think are important would be omitted from the information about operating segments. Many were concerned that entities would no longer disclose their operating result disaggregated by business segment or that the definition of the profit or loss measurement used would be inconsistent with IFRS. Others were concerned that they would not receive information about, for example, cash flows or working capital, analysed by operating segment.

Messages received	Our responses
<b>Definition of 'operating result'</b>  The absence of a defined sub-total for operating results in IFRS has resulted in a perceived lack of comparability in reporting segment performance. Operating results in the segment information are often reported using an IFRS measurement basis to which certain items are added or deducted to give an adjusted operating result such as operating profit before exceptional items (a notion excluded from IFRS) or EBITDA.	  Presentation in the profit and loss will form part of our general review of disclosure and will be discussed in the development of a disclosure framework.
<b>Reduction in some reported line items</b>  Investors were concerned that some entities no longer report particular key line items, such as depreciation, gross margin and cash flow, by segment. Academic research confirms that there has been a decrease in the number of some key reported line items, especially in relation to segment liabilities and capital expenditure.	  This is a difficult area to address. We accept the importance of some line items to investors but prescribing line items conflicts with both the core principle of IFRS 8 and concerns that we have received about disclosure overload. This is an area that warrants further investigation and we think that it should be assessed as part of the work on the development of a disclosure framework.
<b>Support for internally reported line items</b>  Some think that reporting only line items that are used internally results in improved quality of the reported amounts because the reported line items are not affected by allocations that may not be done on a systematic basis. Some investors also think that knowledge about what line items are used by management add insight to the understanding of the business and how it is managed. Preparers also report substantial cost savings because they are no longer required to prepare information solely to comply with external reporting requirements.	  These views confirm many of our expectations when we issued IFRS 8. When we issued IFRS 8 we thought that the use of internally reported line items would provide investors with greater insight into how the business is managed and would reduce the burden on preparers.

# Feedback Statement on the implementation of IFRS 8 continued

## Use of internally reported line items continued

Messages received	Our responses
<p><b>Investors' requests for specific line items</b></p> <p>Some investors think that the use of internally reported line items does not always provide them with the information they need to make comparisons between entities. Investors report that some line items have a special relevance to their decision-making:</p> <ul style="list-style-type: none"><li>(a) non-cash expenses such as depreciation and amortisation;</li><li>(b) investing activities such as capital expenditure, marketing and research and development because these activities indicate the future direction of the business;</li><li>(c) impairment of goodwill in order to understand poor performance by some sectors and the outcome of acquisitions; and</li><li>(d) other line items that affect future cash flows.</li></ul>	<p>Most investors would like us to mandate particular line items for disclosure. A few investors noted, however, that the importance of different line items varies by industry, for example research and development is very important for pharmaceutical entities but not for construction entities. These investors think that we should not specify individual line-items in order to avoid creating non-relevant, boilerplate disclosures. This is an area that warrants further consideration and we think that it will be addressed when the IASB develops its disclosure framework and, in particular, when it considers materiality with respect to individual Standards.</p>

## Disclosure requirements

We asked a separate question about the disclosure requirements in the Standard. Because each entity's basis of segmentation will differ, the IASB ensured that IFRS 8 had a wide range of required disclosures. Each entity is required to disclose general information about factors used to identify reportable segments and information about the types of products and services from which each segment derives revenue. In addition the entity is required to make a number of entitywide disclosures about product lines, geographical information and customers.

Messages received	Our responses
<p><b>Adequacy of reconciliations—preparers</b></p> <p>Most preparers think that the requirements for reconciliations are clear and easy to comply with. A few preparers think that the reconciliations are complex and that the requirements are not clear. Some are confused about how to show the different elements of the reconciliation separately. Some regulators complain that reconciliations may be poorly prepared and do not comply with the Standard when reconciliations of some specified line items are omitted.</p>	<p>We are concerned that a few preparers think that the requirements are not clear. We also note regulators' comments that preparers may omit some reconciliations or fail to disclose information about 'other segments' separately from reporting segments. We take part in an ongoing dialogue with securities regulators to identify issues about compliance and enforceability. We will consult regulators to ask whether this is an area that warrants further investigation by the IASB.</p>
<p><b>Adequacy of reconciliations—investors</b></p> <p>Many investors find the reconciliations difficult to understand.</p> <p>They also think that the reconciliations do not provide enough information to understand what the reconciling amounts represent or how the amount relates to each segment. Many investors have requested that reconciliations should be prepared segment by segment.</p>	<p>Because investors report that reconciliations are hard to understand and some preparers think that the requirements are not clear, we think that this is a potential candidate for further consideration by the IASB.</p> <p>Preparers and others have cautioned against a segment-by-segment reconciliation because they think that going against the key principle of management perspective would result in a need to allocate reconciling items to segments when there is no systematic basis on which to do so. In our view, non-systematic allocations would reduce the value of the segment information produced.</p>
<p><b>Aggregation criteria</b></p> <p>Many participants think that too much aggregation of operating segments takes place. Investors, in particular, think that segments are aggregated in a way that does not assist them in their use of valuation models.</p> <p>Many preparers and auditors think that determining when operating segments should be aggregated is difficult in practice. Participants also note that aggregation is an area that is subject to frequent regulatory challenges in some jurisdictions.</p>	<p>We acknowledge participants' concerns. Some have suggested that these concerns could be addressed by providing more guidance on what is meant by 'similar economic characteristics'. Others have suggested that the quantitative thresholds in the Standard conflict with the core principles of IFRS 8. We note, however, that the empirical evidence identified in the academic review shows that the number of reported segments has increased and the number of single-segment entities has decreased. Notwithstanding that, aggregation criteria are important in applying IFRS 8 and we therefore think this area warrants further investigation by the IASB. This area will also be considered as part of the work on materiality which will be carried out as part of our general review of disclosure.</p>

# Feedback Statement on the implementation of IFRS 8 continued

## Disclosure requirements continued

Messages received	Our responses
<p><b>Geographical information</b></p> <p>Many investors would like to see a full segment analysis prepared on a geographical basis. They think that this information is important because economic conditions are not uniform worldwide. Other investors think that the existing geographical information may not be useful if the identification of segments does not distinguish between different regions in a way that is useful for investors.</p>	<p>We have received very mixed messages about the adequacy of geographical information provided. Some entities are managed on a geographical basis and so provide this information. In addition, it is reported that many entities voluntarily provide geographical disaggregation of segment information. Some preparers and investors think that the entity-wide disclosures of revenue by geographical region adequately addresses this issue.</p> <p>Feedback received did not identify a clear or consistent problem that we need to address and, consequently, we do not think this area warrants any further action at this time.</p>
<p><b>Entity-wide disclosures</b></p> <p>Many participants think that entity-wide disclosures are poorly understood. Some see them as a supplement to replace the secondary disclosure requirements of IAS 14. Many think that entity-wide disclosures are inconsistently applied across entities and it is claimed that regulators frequently challenge the entity-wide disclosures made.</p>	<p>We accept that the disclosures required are difficult to systematise and are often not reviewed by the CODM. We think, however, that they provide useful information to investors and consequently we do not think that this area warrants any changes at this time.</p>



## Implementation of IFRS 8

We asked respondents to tell us about their experience of implementing IFRS 8. When we issued IFRS 8 we thought that the incremental costs for preparers of applying IFRS 8 would be low because the information reported about operating segments would be provided by existing internal reporting systems and processes.

Messages received	Our responses
<b>Costs of implementation</b>  In general, most respondents report that implementation costs were not excessive. Preparers in particular report that there were few incremental costs of implementation.	  This confirms the view we held when we issued IFRS 8 that application of the Standard would not require excessive costs.
<b>Ongoing costs</b>  Many preparers report significant reductions in ongoing costs because they now maintain only one set of reporting systems and processes. Regulators, on the other hand, think that the management perspective is a difficult approach to enforce because it is solely based on management's judgement to identify operating and reporting segments. Regulators in some jurisdictions report increased costs of enforcement.	  We expected the costs of compliance to reduce following the application of IFRS 8. We are concerned, however, by regulators' comments. The IASB is in the process of enhancing its dialogue with regulators. Specifically, their involvement with us on assessing materiality should help to clarify aggregation and the identification of reporting segments more generally.
<b>Identification of CODM</b>  Many preparers find it difficult to identify the CODM and some are uncertain at what level that role should be in an entity's management hierarchy. Respondents also debate whether the role is principally strategic or operational.	  The practical difficulties associated with the identification of the CODM have been known for some time. This is primarily a one-time issue that arises when first applying IFRS and consequently is of more concern to first-time adopters than in jurisdictions that currently apply IFRS. In order to support first-time adopters, we will consider reviewing this requirement and consider how this requirement could be made more clear.

# Respondents to the Request for Information

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Accounting Standards Board of Canada (AcSB)	France-Telecom Orange
Accounting Standards Board of Canada Users' Advisory Council	Grant Thornton International Ltd
Allianz SE	Grupo Latinoamericano de Emisores de Normas de Información Financiera (GLENIF) [Group of Latin American Standard Setters (GLASS)]
Asian-Oceanian Standards-Setters Group (AOSSG)	Hong Kong Institute of Certified Public Accountants (HKICPA)
Association of Chartered Certified Accountants (ACCA)	Hydro-Québec
Association pour la Participation des Entreprises Françaises à l'Harmonisation Comptable Internationale (ACTEO) [French association for the participation of business in the convergence of accounting standards]	Institute of Chartered Accountants in England and Wales (ICAEW)
Australia and New Zealand Banking Group Limited (ANZ)	Institute of Chartered Accountants of Scotland (ICAS)
Australian Accounting Standards Board (AASB)	International Association of Consultants, Valuators and Analysts (IACVA)
Autorité des normes comptables (ANC) [French standard-setting body]	Investment Management Association (IMA)
Bundesverband Öffentlicher Banken Deutschlands [The Association of German Public Banks]	Israel Securities Authorities
BusinessEurope	KPMG
CFA Society of the UK	Larsen & Toubro Limited
CFO Forum [South Africa]	Linde Group
Chartered Accountants Ireland	Malaysian Accounting Standards Board (MASB)
Chartered Institute of Management Accountants (CIMA)	Mazars
Comitê de Pronunciamentos Contábeis (CPC) [Brazilian Accounting Pronouncements Committee]	Nestlé S.A.
Confederation of British Industry	Norsk RegnskapsStiftelse (NASB) [Norwegian Accounting Standards Board]
Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF)[Mexican Council for the implementation and overview of financial information]	Novartis International AG
CPA Australia Ltd	PricewaterhouseCoopers (pwc)
Deloitte Touche Tohmatsu Limited	Quoted Companies Alliance (QCA)
Denise Silva Ferreira Juvenal	Raad voor de Jaarverslaggeving [Dutch Accounting Standards Board]
Ernst & Young	Rakesh Choudhary & Associates
Eumediton [Corporate Governance Forum]	Repsol
European Federation of Financial Analysts Societies (EFFAS)	Securities and Exchange Board of India (SEBI)
European Financial Reporting Advisory Group (EFRAG)	La Société Française des Analystes Financiers (SFAF)
European Insurance CFO Forum	South African Institute of Chartered Accountants (SAICA)
European Securities and Markets Authority (ESMA)	Standard Chartered PLC
External Reporting Board of New Zealand (XRB)	Svenskt Näringsliv [Confederation of Swedish Enterprise]
Financial Executives International (FEI) [Canada]	SwissHoldings [Federation of Industrial and Service Groups in Switzerland]
Financial Reporting Council (FRC) [UK]	Syngenta International AG
	Telecom Argentina
	UBS AG

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# Summary of academic research and related literature

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# Feedback on the post-implementation review process

# Post-implementation review process

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## Original requirements

The requirement to carry out a post-implementation review was added to the IASB's due process by the Trustees in 2007. The Trustees decided that it was important to review major new Standards, or significant amendments to existing Standards, two years after the Standard had been applied internationally. We see these reviews as being an important part of the maintenance of IFRSs. The formal post-implementation review process supplements the other mechanisms the IASB has in place to review the implementation of IFRSs—interpretations, annual improvements and the three-yearly consultation on the IASB work plan.

The first such review focused on IFRS 8 *Operating Segments* and was launched in early 2012.

## Process revised after consultation

We consulted widely while we were developing the post-implementation review methodology. This consultation included the IFRS Advisory Council, the International Forum of Accounting Standard Setters (IFASS), the IFRS Interpretations Committee and others.

As a result, we introduced a public consultation step in the early part of the review process to provide a more open and transparent process. The consultation also highlighted the concerns of some constituents that limiting the scope of the review to contentious issues and consideration of implementation issues and unexpected costs, as originally required, would prevent us from undertaking a broader review of the Standard.

As a result of this feedback the IASB proposed changes to the scope and transparency of the post-implementation review. These proposals were agreed by the Trustees and reflected by them when they reviewed our due process requirements. For the broadened objectives and extended methodology of the post-implementation review process, please see pages 32-33, which is an extract from the *Due Process Handbook*.

Each review has two phases. In the first phase the IASB sets the scope of the review, on the basis of targeted consultation with preparers, users, auditors, securities regulators, standard-setters, other interested parties and the IFRS Advisory Council. These initial consultations help the IASB to establish the questions to ask in the public Request for Information.

In the second phase the IASB collects information, via the Request for Information and a review of existing research, to help it assess the IFRS being reviewed. During this evidence-gathering phase of the post-implementation review we also conduct outreach coordinated with the national standard-setters. In addition, we ensure that we engage with investors and undertake outreach that focuses on gathering their input.

The comment letters received and the IASB discussions are public. Once the IASB has considered what it has learned from the review it publishes a report setting out its findings and identifying any actions it plans to take. That report is also considered by the DPOC.

We used this revised process to perform our post-implementation review of IFRS 8.

# Feedback received on the post-implementation review process

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The feedback that we have received on the post-implementation review of IFRS 8 was very positive and has validated the changes in scope and objective agreed by the Trustees in April 2012.

- Almost all commentators agreed with the broader scope of the post-implementation review and welcomed the ability to comment on all aspects of the Standard.
- The use of public consultation was widely supported. Most participants think that it facilitates a wider discussion of issues raised, because participants are able to add to each other's discussions. It also provides a clear link between the IASB's conclusions and the evidence on which those conclusions are based.
- As part of the post-implementation review process, a review was conducted of academic research and available literature. Many respondents were interested in this review and encouraged the IASB to use third-party research more frequently.
- Our constituents value transparency. In most commentators' views, transparency is needed to justify the post-implementation review process as a whole and to validate the IASB's conclusions.

## Our next post-implementation review

The next post-implementation review planned is that of IFRS 3 *Business Combinations*. We will use the lessons that we have learnt doing our first post-implementation review to ensure that our review of IFRS 3 is both balanced and thorough. At the date of this report, preliminary work has commenced to set the scope of this review.

# Due Process

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*Extract from*

## **IFRS Foundation: IASB and IFRS Interpretation Committee Due Process Handbook**

### **Post-implementation review**

- 6.52. The IASB is required to conduct a post-implementation review of each new IFRS or major amendment. A PIR normally begins after the new requirements have been applied internationally for two years, which is generally about 30 to 36 months after the effective date.
- 6.53. In addition to PIRs that respond to a new IFRS or major amendment, the IASB may decide to conduct a PIR in response to changes in the financial reporting environment and regulatory requirements, or in response to concerns about the quality of an IFRS that have been expressed by the Advisory Council, the Interpretations Committee, standard-setters or interested parties.
- 6.54. Each review has two phases. The first involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the IASB in the form of a Request for Information. In the second phase, the IASB considers the comments it has received from the Request for Information along with information it has gathered through other consultative activities. On the basis of that information, the IASB presents its findings and sets out the steps it plans to take, if any, as a result of the review.

### **Initial assessment and public consultation**

- 6.55. The goal of improving financial reporting underlies any new IFRS. A PIR is an opportunity to assess the effect of the new requirements on investors, preparers and auditors. The review must consider the issues that were important or contentious during the development of the publication, which should be identifiable from the Basis for Conclusions, Project Summary, Feedback Statement and Effect Analysis of the relevant IFRS. The IASB and its staff also consult with the wider IFRS community to help the IASB identify areas where possible unexpected costs or implementation problems were encountered.
- 6.56. This initial review should draw on the broad network of IFRS related bodies and interested parties, such as the Interpretations Committee, the IASB's consultative groups, including the Advisory Council, securities regulators, national and regional standard-setting bodies, preparers, auditors and investors. The purpose of these consultations is to inform the IASB so that it can establish an appropriate scope for the review. How extensive the consultations need to be in this phase will depend on the IFRS being reviewed and on what the IASB already knows about the implementation of that IFRS. The IASB needs to be satisfied that it has sufficient information to establish the scope of the review.



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- 6.57. The IASB publishes a Request for Information, setting out the matters for which it is seeking feedback by means of a formal public consultation. In the Request for Information, the IASB should explain why it is seeking feedback on the matters specified and should include any initial assessment by the IASB of the IFRS or major amendment being reviewed. The Request for Information will also set out the process that the IASB followed in establishing the scope of the review.
- 6.58. The IASB normally allows a minimum of 120 days for comment on a post-implementation Request for Information. The IASB must inform the DPOC before the Request for Information is published if it intends to have a comment period of less than 120 days.
- 6.59. The IASB may decide, on the basis of its initial assessment, that it would be premature to undertake a review at that time. The IASB must inform the DPOC of its intention to defer a PIR, explaining why it has reached this conclusion and indicating when it expects to resume the review.

### Consideration of evidence and presentation of findings

- 6.60 The IASB considers whether it is necessary to supplement the Request for Information with other information or evidence, such as by undertaking:
- (a) an analysis of financial statements or of other financial information;
  - (b) a review of academic and other research related to the implementation of the IFRS being reviewed; and
  - (c) surveys, interviews and other consultations with relevant parties.
- 6.61 The extent to which further information is gathered will depend on the IFRS being reviewed and the feedback in the Request for Information.
- 6.62 The IASB considers the comments that it has received from the Request for Information along with the evidence and information that it has obtained from any additional analysis. When the IASB has completed its deliberations, it presents its findings in a public report. The IASB may consider making minor amendments to the IFRS or preparing an agenda proposal for a broader revision of the IFRS. There is no presumption that a PIR will lead to any changes to an IFRS. The IASB may also continue informal consultations throughout the implementation of the IFRS or the amendment to the IFRS. The IASB may recommend to the DPOC that the IASB should make changes to its procedures, such as how effects of the IFRS are assessed or additional steps that should be taken during the development of an IFRS.
- 6.63 The IASB must inform the DPOC when it has completed its review and provide the DPOC with a draft of the report. When the DPOC is satisfied that the IASB has completed the review satisfactorily, the report can be finalised.

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International Accounting Standards Board (IASB)

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