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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

IASB Request for Information *Post-implementation Review: IFRS 8 Operating Segments*

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IASB's Request for Information *Post-implementation Review: IFRS 8 Operating Segments.* In formulating these comments, the AASB sought and considered the views of Australian constituents received through an IASB discussion forum hosted by the AASB, and comment letters.

The IASB discussion forum was held in Melbourne on 3 October 2012 with the aim of providing an opportunity for participants to share their experience of applying IFRS 8 with the relevant IASB staff member and the AASB staff.

The comment letters received are published on the AASB website.

The following AASB comments relate to issues relevant to the subject matter of specific questions set out in the Request for Information.

Effect of IFRS 8 on segment disclosure (Question 2)

A recent academic study[1] on the effect of IFRS 8 adoption on segment disclosure in Australia was discussed at the IASB discussion forum. The study draws on a large sample of top Australian listed entities and, among other things, makes the following conclusions:

(a) the adoption of IFRS 8 resulted in an increase in the number of segments disclosed compared with the number disclosed under the predecessor IAS 14 *Segment Reporting.* This increase occurred in both entities previously disclosing a single segment and those previously disclosing multiple segments;

(b) the change in the number of segments reported was found to have some relationship to the number of segments reporting a loss. Further, single segment entities that disclosed additional segments were found to be more commonly operating in relatively concentrated (less competitive) industries. There were indications that these entities have higher growth options and are more profitable than those that did not change the number of segments reported; and

1 http://www.afaanz.org/openconf/2012/modules/request.php?module=oc_program&action=view.php&id=59

(c) multiple segment entities that did not change the number of segments disclosed showed a reduction in the number of line items disclosed. The study attributes this to the flexibility in the extent of per-segment disclosure under IFRS 8. The extent of reduction in the disclosure of line items was found to be negatively associated with the existence of loss-making segments, size and the existence of outside equity interest in the group. The reduction in line items was found to be higher for entities operating in more concentrated industries.

The AASB notes that the increase in the number of segments noted in (a) above might be attributed to the aggregation criteria under IFRS 8, which make it more difficult to aggregate loss-making segments with profitable segments due to their different economics. It might also be attributed to the increased management awareness of the benefits of being more transparent in providing such information to investors and analysts. The AASB further notes that the decrease in the number of line items noted in (c) above could be due to a reduction in the number of mandatory line item disclosures under IFRS 8 compared with IAS 14.

Effect of management perspective (Question 2)

The AASB has continued to support the IFRS 8 'through the eye of management approach' to segment reporting. However, the AASB believes that the approach could be further improved if it were more principle-based and both avoided the rule-based criteria arising from the application of the notion of the chief operating decision maker (CODM) and the somewhat out-of-date presumption that the CODM would necessarily be looking at aggregated paper-based information incapable of being extracted in fine detail in various alternative ways. The CODM is able to extract and review information at different sub-segment levels and, therefore, has a choice of information to be used for making decisions, which could affect the identification of operating segments under IFRS 8, without reflecting the way the business is managed. A similar situation may be envisaged where different members of the CODM have access to different levels of information, which then becomes common knowledge of all members.

There continues to be debates in practice as who the CODM should be in some situations. Generally, the CODM is viewed as being involved in operating the business and have key decision-making power. The CODM could be the entire board of directors, or in the case of some listed companies, decision-making power may be delegated to one operating person. However, the usual view is that the CODM should be one person. There is sometimes difficulty in identifying whether the executive chairman or CEO is the CODM.

Accordingly, the AASB believes the identification of segments would be more robust if it were based on a principle that focuses on how an entity's business is actually organised and managed segmentally rather than by reference to a proxy for that, being the review of information by the CODM.

Application of entity-wide disclosures (Question 5)

There is a concern in Australia that the entity-wide disclosure requirements in IFRS 8 are not fully adhered to due to a perceived lack of relevance in a segment reporting context. In particular, inclusion of entity-wide disclosures in the segment standard can lead to them being overlooked by single segment entities.

The IASB is encouraged to review the entity-wide disclosure requirements under IFRS 8 for relevance and with a view to improving their visibility, possibly in the context of the entity-wide disclosure requirements of other Standards (such as IAS 1 *Presentation of Financial Statements*) within a more broadly based disclosure framework.

Perceived tension between IAS 36 and IFRS 8 (Question 6)

Some constituents expressed a concern that the IAS 36 *Impairment of Assets* requirement for the level at which goodwill should be assessed for impairment could inappropriately affect the judgement made under IFRS 8 about the level of disaggregation. They noted this could provide an incentive for some entities to minimise the number of operating segments in order to provide a buffer to protect against goodwill impairment loss.

In the AASB's view, this concern may have arisen from a confusion about the segment that should act as a cap on the size of the cash generating unit (or group of cash generating units) for goodwill allocation purposes under IAS 36, which is the operating segment before aggregation rather than the reportable segment. The IASB may wish to consider further clarifying this issue in IFRS 8 or IAS 36.

If you have any queries regarding any matters in this submission, please contact Ahmad Hamidi (ahamidi@aasb.gov.au).

Yours sincerely

Kevin M. Stevenson
Chairman and CEO