

## STAFF PAPER

17 January – 18 January 2012

## IFRS Interpretations Committee Meeting

[this box can be used to give additional meeting dates]

Project	2009-2011 Annual improvements cycle (ED June 2011)— Comment letter analysis		
Paper topic	IAS 34 <i>Interim Financial Reporting</i> —Interim financial reporting and segment information for total assets		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

## Introduction

1. The exposure draft of proposed *Improvements to IFRSs* published in June 2011 includes the Board's proposal to clarify the requirements in IAS 34 *Interim Financial Reporting* in order to enhance consistency with the requirements in IFRS 8 *Operating Segments*. The proposed amendment clarifies that total assets for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

## Objective of this paper

2. The objective of this paper is to provide an analysis of the comment letters received on the proposal to amend IAS 34 and to obtain a final decision from the

IFRS Interpretation Committee (the ‘Committee’) to allow this issue to be included in the final *Improvements to IFRSs* that is planned to be issued in 2012.

### Structure of this paper

3. This agenda paper:
  - (a) provides background information on the issue;
  - (b) analyses the comments received as part of the exposure draft process and recommends changes to the proposed draft wording; and
  - (c) asks the Committee to confirm whether they agree with the staff recommendation to proceed with the proposed amendment by adding some further changes that would make the proposed amendment clearer.

### Background

#### **Current guidance**

4. The *Improvements to IFRSs* issued in April 2009 amended paragraph 23 of IFRS 8 to clarify that a measure of segment assets is required to be disclosed only if that amount is regularly provided to the chief operating decision maker. Paragraph 23 of IFRS 8 is partially reproduced below for ease of reference (emphasis added):
  - 23 An entity shall report a measure of profit or loss for each reportable segment. **An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker.** An entity shall also disclose...
5. Paragraph 16A (g)(iv) of IAS 34 was not amended as a consequence of the amendment issued in 2009. According to this paragraph, an entity shall disclose a measure of segment assets when there has been a material change from the amount

disclosed in the last annual financial statements. The paragraph states that (emphasis added):

16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.

(a) ...

**(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements):**

(i) ...

**(iv) total assets for which there has been a material change from the amount disclosed in the last annual financial statements.**

***Issue that led to the proposed amendment***

6. Constituents observed that paragraph 16A (g)(iv) of IAS 34 is inconsistent with paragraph 23 of IFRS 8 because the former requires disclosure of segment assets in interim financial statements irrespective of whether the information is provided to the chief operating decision maker.
7. To address the inconsistency described above, in March 2010 (refer to Agenda Paper 7F<sup>1</sup>) the Committee recommended to the Board that it should clarify that

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<sup>1</sup> <http://www.ifrs.org/Meetings/IFRIC+Meeting+March+2010.htm>

disclosure of segment assets for a particular segment is required in interim financial reporting only when there has been a material change from the amount disclosed in the last annual financial statements for that segment and when the amounts are regularly provided to the chief operating decision maker.

***The Board’s proposal to address the issues raised***

8. At the Board meeting in July 2010<sup>2</sup>, the Board agreed with the Committee’s proposal to align the disclosure requirements in IAS 34 with those of IFRS 8 and to include an amendment to paragraph 16A (g)(iv) of IAS 34 as part of the 2009–2011 *Annual Improvements* cycle.
9. The proposed amendment is reproduced below for ease of reference (new text is underlined):

16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.

(a) ...

(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if IFRS 8 Operating Segments requires that entity to disclose segment information in its annual financial statements):

(i) ...

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<sup>2</sup> <http://www.ifrs.org/Meetings/IASB+Board+Meeting+21+July+2010.htm> Agenda Paper 14D

(iv) a measure of total assets for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if for which there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

**Effective date**

52    Improvements to IFRSs issued in [date] amended paragraph 16A. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

**Comment letter analysis**

10. In this section, we discuss and analyse the comments received from constituents on the *Improvements to IFRS Exposure Draft* (2011) during the comment period, which ended on 21 October 2011.
11. The Board received 67 comment letters on the exposure draft (ED). The ED asked two questions:
  - (a) Question 1: Do you agree with the Board’s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?) [52 respondents answered this question]
  - (b) Question 2: Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? [50 respondents answered this question]

**Main concerns identified**

12. Respondents agreed with the proposed amendment almost unanimously. However, some respondents<sup>3</sup> disagreed with the proposal that the amendment should be applied prospectively. Another respondent (CL 49 KPMG) notes a further inconsistency between paragraph 16A(g)(iv) of IAS 34 and paragraph 23 in IFRS 8.

*Retrospective application of the proposed amendment*

13. They think that the proposed amendment should be applied retrospectively, because:
- (a) the prospective application of the proposed amendment might imply that in the period of adoption of the amendment, an entity would need to disclose amounts for total assets as comparative amounts for the prior period (if the disclosure had previously been given), even though no amounts would be disclosed for the current period.
  - (b) the prospective application of the proposed amendment is not consistent with the requirements of paragraphs 29 of IFRS 8, in relation to the restatement of previously reported information when an entity changes its reportable segments. Paragraph 29 of IFRS 8 states that (emphasis added):

**29 If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be restated unless the information is not available and the cost to develop it would be excessive.** The determination of whether the information is not available and the cost to develop

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<sup>3</sup> See Comment Letter (CL) 5 (Deloitte), CL13 (AFME), CL 15 (IOSCO), CL 21 (BDO), CL 36 (GASB), CL 44 (BusinessEurope), CL 58 (Chartered Accountants Ireland), CL 59 (Hong Kong Institute of CPA)

it would be excessive shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods

*Consistency between paragraph 16A(g)(iv) of IAS 34 and paragraph 23 in IFRS 8*

14. Another respondent (CL 49 KPMG) proposes to refer to a ‘measure of total assets **and/or liabilities**’ in paragraph 16A(g)(iv) of IAS 34 to make this paragraph consistent with the guidance in paragraph 23 of IFRS 8 that an entity should “...report a **measure of total assets and liabilities** for each reportable segment if such amounts are regularly provided to the chief operating decision maker”.

***Staff analysis and staff recommendation***

*Retrospective application of the proposed amendment*

15. We agree that the proposed amendment should be consistent with the requirements of paragraph 29 of IFRS 8 as this is the Board’s intention as reflected in the *IASB Update* of July 2010<sup>4</sup> which refers that (emphasis added):

**IASB Update (July 2010)**

The Board discussed a proposed amendment to address a conflict within the standards with respect to the disclosure of segment assets. The perceived conflict is that IAS 34 could be read as requiring the disclosure of segment assets in interim financial reports regardless of whether that amount is regularly provided to the chief operating decision-maker.

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<sup>4</sup> <http://media.iasb.org/IASBUpdateJuly2010.html#2>

**The proposed amendment is to align the disclosure requirements in IAS 34 with those of IFRS 8.**

The Board tentatively decided to include the proposed amendment within the next Improvements to IFRSs exposure draft.

16. We also think that retrospective application, generally, increases the comparability and the quality of financial interim reporting. Consequently, we agree that the proposed amendment should be applied retrospectively rather than prospectively.

*Consistency between paragraph 16A(g)(iv) of IAS 34 and paragraph 23 in IFRS 8*

17. In addition we agree with the respondent’s suggestion to modify paragraph 16A(g)(iv) of IAS 34 to make this paragraph consistent with the guidance in paragraph 23 of IFRS 8. We think that paragraph 16A(g)(iv) of IAS 34 should state that (emphasis added):

(iv) a measure of total assets **and liabilities** for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

**Summary of staff recommendation and questions to the Interpretations Committee**

18. We think that the Committee should recommend the Board that:
- (a) it should proceed with the proposed amendment and it should be applied retrospectively rather than prospectively; and
  - (b) paragraph 16A(g)(iv) of IAS 34 should be made consistent with paragraph 23 in IFRS 8. Consequently, the former paragraph should require “a measure of total assets **and liabilities** for a particular reportable segment if such amounts are regularly provided to the chief



operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment”.

19. Our recommended changes to the draft wording are included as appendices, as follows:
- (a) **Appendix A** shows the proposed amendment, including the staff’s recommendations in this paper, highlighting differences from the currently effective standard; and
  - (b) **Appendix B** shows revisions to the wording in the previously published exposure draft, following the staff’s recommendations in this paper.

**Questions – Interim financial reporting and segment information for total assets**

1. Does the Committee agree to recommend to the Board that:
  - (a) it should proceed with the proposed amendment and that this amendment should be applied retrospectively rather than prospectively?
  - (b) paragraph 16A(g)(iv) of IAS 34 should be made consistent with paragraph 23 in IFRS 8 and require a “measure of assets **and liabilities** for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker?
2. Does the Committee agree with the proposed amendment in Appendix A? If not, what does the Committee recommend?

## Appendix A—Draft wording of the proposed amendment, showing differences from the currently effective standard

### Proposed amendments to IAS 34 *Interim Financial Reporting*

In the rubric ‘paragraphs 1–49’ is amended to ‘paragraphs 1–52’. Paragraph 16A is amended (new text is underlined and deleted text is struck through) and paragraph 52 is added.

#### Content of an interim financial report

##### Other disclosures

**16A** In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.

(a) ...

(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements):

(i) ...

(iv) a measure of total assets and liabilities for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if ~~for which~~ there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

(v)...

(h)...

#### Effective date

52 *Improvements to IFRSs* issued in [date] amended paragraph 16A. An entity shall apply that amendment for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

## **Basis for Conclusions on proposed amendment to IAS 34 *Interim Financial Reporting***

*This Basis for Conclusions accompanies, but is not part of, the proposed amendment.*

Paragraph BC5 is added.

### **Selected explanatory notes**

- BC5 The Board decided to clarify the requirements in IAS 34 *Interim Financial Reporting* on segment information for total assets and liabilities for each reportable segment in order to enhance consistency with the requirements in paragraph 23 of IFRS 8 *Operating Segments*. The proposed amendment clarifies that total assets and liabilities for a particular reportable segment are required to be disclosed only when both:
- (a) the amounts are regularly provided to the chief operating decision maker; and
  - (b) there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

## Appendix B—Draft wording showing changes from the exposure draft published in June 2011 following our recommendations in this paper

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### Content of an interim financial report

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(a) ...

(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements):

(i) ...

(iv) a measure of total assets and liabilities for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

(v) ...

(h) ...

### Effective date

52 *Improvements to IFRSs* issued in [date] amended paragraph 16A. An entity shall apply that amendment ~~prospectively~~ for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

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**Selected explanatory notes**

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- (a) the amounts are regularly provided to the chief operating decision maker; and
  - (b) there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment ~~in the measure of total assets for that particular reportable segment from the amount disclosed in the last annual financial statements.~~