STAFF PAPER

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IFRS Interpretations Committee Meeting

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Project	**Annual Improvements to IFRSs—2010-2012 Cycle (ED/2012/1) comment letter analysis**
Paper topic	IFRS 8 *Operating Segments*—reconciliation of the reportable segments' assets to the entity's assets

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Introduction

1. The Exposure Draft (ED) on *Annual Improvements to IFRSs 2010 –2012 cycle* (ED/2012/1) published in May 2012 includes the IASB's proposal to amend the requirements in paragraph 28(c) of IFRS 8.

2. This amendment proposes to clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed for a particular reportable segment if segments assets are reported in accordance with paragraph 23 of IFRS 8. This is, if the amounts are regularly provided to the chief operating decision maker (CODM).

3. This clarification would make this paragraph consistent with paragraphs 23 and 28(d) in IFRS 8.

Objective of the paper

4. The objective of this paper is to provide an analysis of the comment letters received on the proposal to amend paragraph 28(c) of IFRS 8 and to obtain a final recommendation from the IFRS Interpretations Committee (the Interpretations Committee) to allow this issue to be included in the final *Improvements to IFRSs* that is planned to be published in 2013.

Structure of the paper

5. This paper:

   (a) provides background information and explains 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 Interpretations Committee to confirm whether they agree with the staff recommendation to proceed with the proposed amendment by adding some minor edits that would make the proposed amendment clearer.

Background information

6. In April 2009, as part of the *Improvements to IFRSs*, the IASB amended paragraph 23 of IFRS 8 to clarify that a measure of total assets for each reportable segment should be disclosed only if that amount is regularly provided to the CODM. The IASB's decision to make this change was to avoid an unintended difference from practice in the US under SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* (now Topic 280 *Segment Reporting* in the *FASB Accounting Standards Codification*®).

7. Paragraph 28(d) indicates that the reconciliation of the total of the reportable segments' liabilities to the entity's liabilities should be provided if segment liabilities are reported in accordance with paragraph 23; that is, if a measurement of total liabilities for each reportable segment is regularly provided to the chief operating decision-maker.

8. Both paragraphs are reproduced below (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 the following about each

reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss: (…)

28 An entity shall provide reconciliations of all of the following:

(a) the total of the reportable segments' revenues to the entity's revenue.

(b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.

(c) the total of the reportable segments' assets to the entity's assets.

(d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.

(e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described.

Issue that led to the proposed amendment

9. In March 2011 the IFRS Interpretations Committee (the Committee) received a request to clarify in paragraph 28(c). The submitter observed that paragraph 28(c) should have been amended to make the disclosure requirements in this paragraph consistent with the amendment to paragraph 23. This amendment should have:

   (a) indicated that the reconciliation of the total of the reportable segment assets to the entity's assets should be provided if segment assets are reported in accordance with paragraph 23.

   (b) made paragraph 28(c) consistent with paragraph 28(d), which requires a reconciliation of total reportable segment liabilities if segment liabilities are reported in accordance with paragraph 23.

10. The Interpretations Committee discussed this issue at the May 2011 meeting (refer to agenda paper 5) and made a recommendation to the IASB to propose an improvement through the annual improvements project (refer to the *IFRIC Update* of May 2011).

The IASB's proposal to address the issues raised

11. At the September 2011 (refer to agenda paper 7E) the IASB discussed the issue and agreed with the Interpretations Committee's decision to propose an improvement (refer to the *IASB Update* of September 2011).

12. The IASB observed that similarly to paragraph 28(d) in IFRS 8, paragraph 28(c) should also clearly indicate that the reconciliation of the total of the reportable segments' assets to the entity's assets should be reported in accordance with paragraph 23 if such amounts are regularly provided to the CODM.

13. The IASB noted that not amending paragraph 28(c) when paragraph 23 was amended was merely an unintended oversight.

14. The proposed amendment is reproduced below for ease of reference **(new text is underlined)**:

Reconciliations

28 An entity shall provide reconciliations of all of the following:

(...)

(...)

(c) the total of the reportable segments' assets to the entity's assets <u>if segment assets are reported in accordance with paragraph 23</u>.

(d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.

(...)

Comment letter analysis

15. In this section, we discuss and analyse the comments received from constituents on the ED (May 2012) during the comment period, which ended on 5 September 2012.

16. The Board received 84 comment letters on the ED.

17. Only 63 respondents expressed their views on the proposed amendment to paragraph 28(c) of IFRS 8.

18. The ED asked two general questions that were answered individually for each proposed amendment:

    (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?*

    (b) **Question 2**: *Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft?*

Analysis of Question 1

19. In respect of Question 1, respondents **broadly agree** with the proposed amendment to paragraph 28(c) of IFRS 8.

20. Very few respondents raised any further issues with the IASB in regard to the proposed amendment. These are explained in the paragraphs below.

Consider amending at the Post-implementation Review stage of IFRS 8

21. A few respondents (ICAEW, KPMG, British American Tobacco and CINIF) noted that, even though they agree with the proposed amendment, they believe that it would be better if this proposed amendment and further amendments to IFRS 8 were to be considered as part of the IASB's post-implementation review of this Standard and all proposed amendments should be put on hold until this review is completed[1].

22. We disagree with this view. The issue is one that is self-contained. The IASB decided that the issue could be sufficiently tackled by amending paragraph 28(c) of IFRS 8. We think that this proposed amendment would provide increased clarity where diversity currently exists, while not revisiting the requirement to reconcile reportable segments' assets to the entity's assets if segment assets are reported in accordance with paragraph 23 of IFRS 8.

Disclosures involving segments assets and/or liabilities should be made mandatory

23. One respondent (CBN) supports the proposed amendment but notes that segments' assets should be considered a mandatory disclosure within IFRS 8. In this respect this constituent states that (emphasis added):

> **The BASB supports the proposed amendments but is still of the opinion that the segment assets should be considered to be a mandatory disclosure within IFRS 8**. This would enable the users of the financial statements to have critical insights in the asset allocation towards the

[1] We noted a similar comment on the proposed amendment to paragraph 22 of IFRS 8 as discussed in agenda paper 10A of November 2012.

> different reportable segments and the return on segment assets. Taking into account the proposed amendment, reporting entities will not always be required to disclose this information.

24. Similarly, another respondent (IACVA) thinks that "reconciliations of the various segment assets and liabilities should always occur". This respondent recommends to the IASB that it should delete the following phrase in paragraph 28(d): "if segment liabilities are reported in accordance with paragraph 23".

25. We disagree with the comments expressed by these two respondents (CBN and IACVA). We think that the primary focus of the disclosure requirements in paragraph 23 (and consequently of the reconciliation requirements in paragraph 28(c) and 28(d)) is that a measure of total assets and liabilities for each reportable segment should be disclosed **only if** such amounts are regularly provided to the CODM. Consequently, we think that this disclosure **cannot** become a mandatory requirement if amounts of total assets and liabilities **are not** regularly provided to the CODM.

26. Another respondent (ICGN) suggests that the IASB should include a further disclosure, as follows (emphasis added):

> We recommend that not only the total external assets of the segments are disclosed (those that reconcile to the reported total of the consolidated balance sheet), **but that also the internal assets (the level of assets used by segment within a group in doing business with other segments within that group before these internal assets get netted off),** so that users can form a view of the performance, size and structure of the segment separate from the other segments in the group.

27. We disagree with this proposal to include a requirement to disclose internal assets, because we think that it goes beyond the proposed amendment to paragraph 28(c) which has the sole purpose of promoting consistency in the guidance in IFRSs.

28. Instead, we suggest that this proposal should be considered as part of the general comments received on the post-implementation review (PIR) of IFRS 8[2].

Proposed minor edits

29. One respondent (RSM International) suggests further edits to the last sentence of proposed paragraph BC5 to make it clearer, as follows (new proposed added text is underlined):

> BC5 (...). The Board noted that it was merely an unintended oversight that paragraph 28(c) was not amended at the time and in the same way as paragraph 28(d). Consequently, the Board proposes that paragraph 28(c) should also clearly indicate that the reconciliation of the total of the reportable segments' assets to the entity's assets should be <u>provided if segments' assets are</u> reported in accordance with paragraph 23.

30. We agree with the proposed edits to paragraph BC5 because we think they will improve the clarity of this paragraph.

Analysis of Question 2

31. With respect to Question 2, respondents **broadly agree** with the transition and effective date of the proposed amendment to paragraph 28(c) of IFRS 8. This proposed amendment will be applied in annual periods beginning on or after 1 January 2014 with earlier application permitted.

Staff recommendation

32. On the basis of the analysis in the previous section, we think that the Committee should recommend to the IASB that it should proceed with the proposed amendment to paragraph 28(c) of IFRS 8 (and the inclusion of paragraphs BC3 – BC5).

[2] We have passed on the information about this proposal to the staff responsible for analysing the comment letters received on the PIR review of IFRS 8. The comment letter deadline is November 16, 2012.

33. In addition, we agree with the one respondent who proposed some edits to the last sentence of paragraph BC5 to make it clearer.

34. Our recommended changes are included as appendices:

    (a) **Appendix A** shows the proposed amendment, including our 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 our recommendations in this paper.

Questions to the IFRS Interpretations Committee
1. Does the Committee agree to recommend to the IASB that it should proceed with the amendment to paragraph 28(c) of IFRS 8? 2. Does the Committee agree with the proposed amendment to paragraph BC5 in the Basis for Conclusions section?

Appendix A—Changes for finalising the amendment

A1. The proposed amendment to paragraph 28(c) is presented below (new text is underlined).

Amendment to IFRS 8 *Operating Segments*

Paragraph 28(c) is amended and paragraph 36C is added (new text is <u>underlined</u> and deleted text is ~~struck through~~).

Reconciliations

28 An entity shall provide reconciliations of all of the following:

(a) the total of the reportable segments' revenues to the entity's revenue.

(b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.

(c) the total of the reportable segments' assets to the entity's assets <u>if segment assets are reported in accordance with paragraph 23</u>.

(d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.

(e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described.

Transition and effective date

36C *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraphs 22[3] and 28(c). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application is

[3] This corresponds to the proposed amendment to IFRS 8 on the aggregation of operating segments. This issue is discussed in agenda paper 10A of November 2012.

permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Basis for Conclusions on amendments to IFRS 8 *Operating Segments*

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

Paragraphs BC3 –BC5 are added.

Reconciliation of segment assets

BC1 –BC2 (...)[4]

BC3 The IASB received a request to clarify the requirement in paragraph 28(c) that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed only if that amount is regularly provided to the chief operating decision-maker. This clarification would make this paragraph consistent with paragraphs 23 and 28(d).

BC4 The IASB noted that in April 2009, as part of *Improvements to IFRS* (issued in April 2009), paragraph 23 was amended to clarify that a measure of total assets for each reportable segment needs to be disclosed only if that amount is regularly provided to the chief operating decision-maker. The IASB's decision to make this change was to avoid an unintended difference from practice in the United States under SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* (now Topic 280 *Segment Reporting* in the *FASB Accounting Standards Codification*®).

BC5 The IASB observed that paragraph 28(d) clearly indicates that the reconciliation of the total of the reportable segments' liabilities to the entity's liabilities should be provided if segment liabilities are reported in accordance with paragraph 23; that is, if a measurement of total assets and total liabilities for each reportable segment is regularly provided to the chief operating decision-maker. The IASB noted that it was merely an unintended oversight that paragraph 28(c) was not amended at the time and in the same way as paragraph 28(d). Consequently, the IASB decided that paragraph 28(c) should also clearly indicate that the reconciliation of the total of the reportable segments' assets to the entity's assets should be provided if segments' assets are reported in accordance with paragraph 23.

[4] These paragraphs were added as a consequence of the proposed amendment to IFRS 8 on the aggregation of operating segments. This issue is discussed in agenda paper 10A of November 2012.

Appendix B—Changes from the Exposure Draft published in May 2012 following our recommendations in this paper

B1 The amendment to paragraph 28(c) is presented below. New text that is proposed to be added on the basis of the comment letter analysis, with respect to the proposed amendment included in the ED (May 2012), is shown with a double-underline. Deleted text has a ~~double struck through~~).

Amendment to IFRS 8 *Operating Segments*

Paragraph 28(c) is amended and paragraph 36C is added (new text is underlined and deleted text is ~~struck through~~).

Reconciliations

28 An entity shall provide reconciliations of all of the following:

(a) the total of the reportable segments' revenues to the entity's revenue.

(b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.

(c) the total of the reportable segments' assets to the entity's assets if segment assets are reported in accordance with paragraph 23.

(d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.

(e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described.

Transition and effective date

36C *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraphs 22[5] and 28(c). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Basis for Conclusions on amendments to IFRS 8 *Operating Segments*

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

Paragraphs B3–B5 are added.

Reconciliation of segment assets

BC1 –BC2 (...)[6]

BC3 The Board received a request to clarify the requirement in paragraph 28(c) that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed only if that amount is regularly provided to the chief operating decision maker. This clarification would make this paragraph consistent with paragraphs 23 and 28(d).

BC4 The Board noted that in April 2009, as part of *Improvements to IFRS* (issued in April 2009), paragraph 23 was amended to clarify that a measure of total assets for each reportable segment needs to be disclosed only if that amount is regularly provided to the chief operating decision maker. The Board's decision to make this change was to avoid an unintended difference from practice in the United States under SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* (now Topic 280 *Segment Reporting* in the FASB Accounting Standards Codification®).

BC5 The Board observed that paragraph 28(d) clearly indicates that the reconciliation of the total of the reportable segments' liabilities to the entity's liabilities should be provided if segment liabilities are reported in accordance with paragraph 23; that is, if a measurement of total assets and total liabilities for each reportable segment is regularly provided to the chief operating decision maker. The Board noted that it was merely an unintended oversight that paragraph 28(c) was not amended at the time and in the same way as paragraph 28(d). Consequently, the Board ~~proposes~~ <u>decided</u> that paragraph 28(c) should also clearly indicate that the reconciliation of the total of the reportable segments' assets to the entity's assets <u>should be provided if segments' assets</u> are reported in accordance with paragraph 23.

[5] See footnote 3.

[6] See footnote 4.