IFRS Briefing Sheet

IFRS 8 *Operating Segments*

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On 30 November 2006 the International Accounting Standards Board (IASB) published a new standard IFRS 8 *Operating Segments*, which is effective for annual periods beginning on or after 1 January 2009. This IFRS Briefing Sheet provides an overview of the requirements of IFRS 8 by comparing them with the existing requirements of IAS 14 *Segment Reporting*, and highlighting changes from the earlier exposure draft.

Background

This IFRS comes as a result of the IASB's joint short-term convergence project with the U.S. Financial Accounting Standards Board (FASB) to reduce differences between IFRSs and U.S. GAAP. Research carried out by the Boards found that the U.S. standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* results in more useful information than the equivalent IFRS, IAS 14. Therefore IFRS 8 adopts the requirements of SFAS 131, except for some terminology and some minor amendments.

Summary of IFRS 8

Main Change – a Management Approach

IFRS 8 requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Such components (operating segments) would be identified on the basis of internal reports that the entity's chief operating decision maker (CODM) reviews regularly in allocating resources to segments and in assessing their performance. This "management approach" differs from IAS 14, which currently requires the disclosure of two sets of segments, business and geographical segments, based on a disaggregation of information contained in the financial statements.

Under IFRS 8 operating segments become reportable based on threshold tests related to revenues, results and assets.

IFRS 8 requires the disclosure of "a measure" of operating segment profit or loss, particular income and expense items, assets and liabilities, which comprises the amounts reported to the CODM. Further profit or loss information, as well as an explanation of how segment profit or loss and segment assets and liabilities are measured for each reportable segment, should be disclosed.

A supplement to KPMG's publication IFRS in Brief

Reconciliations of the totals of segment information to the entity's financial statements also are required.

Other Changes from IAS 14

Other changes from IAS 14 include the following:

- A component of an entity can meet the definition of an operating segment even if it sells primarily or exclusively to other operating segments of the entity (vertically integrated). IAS 14 does not require vertically integrated operations to be identified as business segments.
- IFRS 8 requires more qualitative disclosure than IAS 14, such as the factors used to identify the entity's operating segments and the types of products and services from which each reportable segment derives its revenues.
- Even if an entity has only a single reportable segment, IFRS 8 requires disclosure about the entity's products and services, geographical areas and major customers. IAS 14 does not include this requirement.

Effective Date and Transition

IFRS 8 is effective for annual periods beginning on or after 1 January 2009, with earlier application permitted and the restatement of comparatives required.

Summary of Changes From Exposure Draft (ED) 8 *Operating Segments*

In finalising IFRS 8, the IASB made the following changes in response to the comments received on the proposals included in ED 8 (published by the IASB on 19 January 2006; see *IFRS Briefing Sheet*, Issue 44):

- The effective date has been changed to 1 January 2009, consistent with the IASB's announcement on 24 July 2006 that no new standards would become effective before that date (see *IFRS In Brief*, Issue 27).
- A measure of segment liabilities should be disclosed if that information is reported to the CODM.
- The revenue disclosures proposed for interim financial statements are required only if that information is reviewed by or reported regularly to the CODM.
- The scope of segment reporting has not been expanded to include entities that hold assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company or pension fund.
- If an entity outside the scope of IFRS 8 decides to disclose information about segments that does not comply with the standard, then this information should not be described as "segment information", and the entity should disclose the fact that the information does not comply with IFRS 8.
- When the CODM reviews the operating results of overlapping parts of the business, the entity should determine its operating segments by reference to the needs of users in evaluating the entity's business activities and operating environment.
- The standard clarifies that when a balance sheet is presented based on the broad order of liquidity, "non-current" assets are those that are expected to be recovered more than 12 months after the balance sheet date.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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