



International Accounting Standards Board®

Press Release

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IASB issues convergence standard on segment reporting

The International Accounting Standards Board (IASB) today issued International Financial Reporting Standard (IFRS) 8 *Operating Segments*. The IFRS continues the IASB's work in its joint short-term convergence project with the US Financial Accounting Standards Board (FASB) to reduce differences between IFRSs and US generally accepted accounting principles (GAAP).

IFRS 8 arises from the IASB's comparison of International Accounting Standard (IAS) 14 *Segment Reporting* with the US standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of SFAS 131.

The IFRS requires an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the income statement and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet.

The IASB believes that adopting the management approach will improve financial reporting. First, it allows users of financial statements to review the operations through the eyes of management. Secondly, because the information is already used internally by management, there are few costs for preparers and the information is available on a timely basis. This means that interim reporting of segment information can be extended beyond the current requirements.

As part of its deliberations leading to IFRS 8, the IASB considered comments by a coalition of over 300 non-governmental organisations (NGOs) known as the Publish What You Pay campaign, which asked for the scope of the IFRS to be extended to require additional disclosure on a country-by-country basis. Because the IFRS was developed as a short-term convergence project, the IASB decided that country-by-country disclosure should not be addressed in the IFRS. Instead, the matter will be raised with international bodies that are engaged with similar issues.

Introducing IFRS 8, Sir David Tweedie, IASB Chairman, said:

IFRS 8 continues our work to eliminate major differences between IFRSs and US GAAP and to improve financial reporting. The IFRS adopts the management approach to segment reporting set out in SFAS 131. It therefore gives users of financial statements the opportunity to query how the entity is controlled by its senior decision maker. It does this by enabling entities to provide timely segment information at little extra cost.

The Board will continue to examine the merits for a requirement of country-by-country disclosure as suggested by supporters of the Publish What You Pay campaign. A group of Board members will discuss this issue with other interested organisations.

The primary means of publishing standards is by electronic format through the IASB's subscriber Website. Subscribers are able to access today's publication through the 'eIFRS Login' to online services or go to the link: <http://eifrs.iasb.org/eifrs/Menu>. Those wishing to subscribe should go to the IASCF shop: <http://shop.iasb.org.uk/cmt/0001.asp> or contact:

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Printed copies of IFRS 8 *Operating Segments* (ISBN for the set 1-905590-20-2) are available, at £15.00 each, from the IASCF shop: <http://shop.iasb.org.uk/cmt/0001.asp> or contact the IASC Foundation Publications Department.

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Notes to Editors

About the Standard

Reasons for issuing IFRS 8 *Operating Segments*

1. Achieving convergence of accounting standards around the world is one of the prime objectives of the International Accounting Standards Board. In pursuit of that objective, the Board and the Financial Accounting Standards Board (FASB) in the United States have undertaken a joint short-term project with the objective of reducing differences between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (US GAAP) that are capable of resolution in a relatively short time and can be addressed outside major projects. One aspect of that project involves the two boards considering each other's recent standards with a view to adopting high quality financial reporting solutions. IFRS 8 results from the IASB's comparison of IAS 14 *Segment Reporting* with FASB Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131). IAS 14 was issued in substantially its present form by the IASB's predecessor body, the International Accounting Standards Committee, in 1997.

Main features of IFRS 8

2. The IFRS requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.
3. The IFRS:
 - applies only to listed entities.

- requires identification of operating segments based on internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. This is because the requirements of the IFRS are based on the information about the components of the entity that management uses to make decisions about operating matters.
- includes a component of an entity that sells primarily or exclusively to other operating segments of the entity in the definition of an operating segment if the entity is managed that way.
- requires the amount of each operating segment item reported to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance.
- requires reconciliations of total reportable segment revenues, total profit or loss, total assets, total liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.
- requires an explanation of how segment profit or loss and segment assets and liabilities are measured for each reportable segment.
- requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions.
- requires an entity to give descriptive information about the way in which operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.

Effective date

4. IFRS 8 applies to the annual financial statements for periods beginning on or after 1 January 2009. Earlier application is permitted.

About the IASB

The International Accounting Standards Board (IASB), based in London, began operations in 2001. Contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations fund the operations of the IASB.

The 14 Board members (12 of whom are full-time) are drawn from nine countries and have wide international experience and a variety of functional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.