FRRP highlights the challenge of implementing new segmental reporting requirements

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The Financial Reporting Review Panel of the Financial Reporting Council is concerned about how companies are reporting the performance of key parts of their business in the light of the introduction of IFRS 8, ‘Operating Segments’.

IFRS 8 requires companies to provide an analysis of profit, assets and liabilities so that investors can see the performance of the principal operations or "segments". The new standard requires management to define the company’s operating segments in accordance with how its operations are managed in practice. In this way the IASB sought to respond to criticisms of IAS 14 (the previous standard), to reduce the ability of management to disguise poor performance of a part of the business, and to enable investors to review a company’s operations from the same perspective as management.

The Panel has reviewed a sample of 2009 interim accounts and 2008 annual accounts (when they had early applied the standard) and has asked a number of questions about the implementation of IFRS 8.

This Press Notice highlights some common themes in the Panel’s questions. In particular, the Panel has asked a number of companies to provide additional explanations where:

- only one operating segment is reported, but the group appears to be diverse with different businesses or with significant operations in different countries;
- the operating analysis set out in the narrative report differs from the operating segments in the financial statements;
- the titles and responsibilities of the directors or executive management team imply an organisational structure which is not reflected in the operating segments; or
- the commentary in the narrative report focuses on non-IFRS measures whereas the segmental disclosures are based on IFRS amounts.

The Panel encourages Boards of Directors to test their initial conclusions about their segmental reporting by considering the following questions:

1. What are the key operating decisions made in running the business?
2. Who makes these key operating decisions?
3. Who are the segment managers (as defined in the standard) and who do they report to?
4. How are the group’s activities reported in the information used by management to review performance and make resource allocation decisions between segments?
5. Is any proposed aggregation of operating segments into one reportable segment supported by the aggregation criteria in the standard, including consistency with the core principle?
6. Is the information about reportable segments based on IFRS measures or on an alternative basis?
7. Have the reported segment amounts been reconciled to the IFRS aggregate amounts?
8. Do the accounts describe the factors used to identify the reportable segments including the basis on which the company is organised?

As a final question, management should ask themselves whether the reported segments appear consistent with their internal reporting and, if not, why not.

The Panel draws attention to the fact that no exemption is given from any aspect of IFRS 8 on the grounds that disclosure would be commercially prejudicial.

Commenting on the challenge of implementing the new standard, Bill Knight, Chairman of the Panel, said:

> "IFRS 8 requires companies to report publicly in the same way as they measure performance and allocate resources internally. Implementation is a challenge, but also an opportunity to communicate better by linking the business review with the content of the IFRS accounts."

Notes to Editors

1. The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting confidence in corporate reporting and governance. Its functions are exercised principally by its operating bodies (the Accounting Standards Board, the Auditing Practices Board, the Board for Actuarial Standards, the Financial Reporting Review Panel, the Professional Oversight Board and the Accountancy and Actuarial Discipline Board and by the FRC Board. The Committee on Corporate Governance assists the Board in its work on Corporate Governance.

2. The Role of the Panel is to examine the annual accounts of public and large private companies to see whether they comply with the requirements of the Companies Act 2006 ("the Act") including applicable accounting standards. Following implementation of the Accounting Regulation (EC) No 1606/2002, this may mean compliance with UK or International Financial Reporting Standards.

3. Where breaches of the Act are discovered the Panel seeks to take corrective action that is proportionate to the nature and effect of the defects, taking account of market and user needs. Where a company's accounts are defective in a material respect the Panel will, wherever possible, try to secure their revision by voluntary means, but if this approach fails the Panel is empowered to make an application to the court under section 456 of the Act for an order for revision. To date no court applications have been made.

4. IFRS 8, 'Operating Segments', is effective for annual financial statements beginning on or after 1 January 2009. Earlier application is permitted. The standard specifies how a company should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34, 'Interim Financial Reporting', in its interim financial reports.

5. The Chairman of the Panel is Bill Knight and the Deputy Chairmen, Ian Wright and David Lindsell. There are currently 26 other Panel members drawn from a broad spectrum of commerce and the professions. Individual cases are normally dealt with by specially constituted Groups of 5 or more members.

6. All Press enquiries should be directed to Carol Page tel: 020 7492 2460 or at c.page@frc-frrp.org.uk

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