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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 <i>Operating Segments</i> —aggregation of operating segments		
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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 (ED) on *Annual Improvements to IFRSs 2010–2012 cycle* (ED/2012/1) published in May 2012 includes the IASB’s proposal to amend paragraph 22 of IFRS 8.
2. This amendment proposes the inclusion of an additional disclosure in paragraph 22 that would require a description of the judgements made by management in aggregating operating segments including the economic indicators that management has assessed to conclude that operating segments have ‘similar economic characteristics’ in accordance with paragraph 12 of IFRS 8.

Objective of the paper

3. The objective of this paper is to provide an analysis of the comment letters received on the proposal to amend paragraph 22 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

4. 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

5. IFRS 8 provides guidance for aggregating two or more operating segments into a single operating segment. In accordance with paragraph 12, segments can be aggregated when the segments have similar economic characteristics (emphasis added):

12 Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. **Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this IFRS, the segments have similar economic characteristics, and the segments are similar** in each of the following respects:

- (a) the nature of the products and services;
- (b) the nature of the production processes;
- (c) the type or class of customer for their products and services;

(d) the methods used to distribute their products or provide their services; and

(e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

6. In addition, paragraph 22(a) requires an entity to disclose the factors used to identify reportable segments and whether operating segments have been aggregated. This paragraph is reproduced below (emphasis added):

22 An entity shall disclose the following general information:

(a) **factors used to identify the entity’s reportable segments, including the basis of organisation** (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and **whether operating segments have been aggregated**), and

(b) (...)

Issue that led to the proposed amendment

7. In April 2011 the IASB received a request from the European Securities and Markets Authority (ESMA) to address an issue in IFRS 8 *Operating Segments*, with regard to the application of the aggregation criteria¹.
8. ESMA (hereafter referred to as ‘the submitter’) notes that the meaning of the term ‘similar economic characteristics’ in paragraph 12 is unclear because:
- (a) Paragraph 12 mentions only one indicator (ie ‘long term average gross margins’) to assess whether operating segments have ‘similar economic characteristics’; in the submitter’s view other indicators should also be

¹ The submitter also requested the IASB to clarify the guidance on the identification of the chief operating decision maker (CODM). The IASB discussed both requests but decided that no further clarification of the requirements in IFRS 8 relating to the identification of the CODM was needed. This decision was reflected in the [IASB Update of November 2011](#).

mentioned such as: sales growth, margins, or a combination of various indicators.

- (b) It is difficult to draw a line to distinguish between what is ‘similar’ and ‘not similar’.
- (c) The application of the aggregation criteria requires the use of judgement, and so deciding whether two segments are economically similar is difficult and subjective and leads to diversity in practice.

9. Instead of asking the IASB to clarify the term ‘similar economic characteristics’ in paragraph 12, the submitter requested the IASB to add a disclosure in paragraph 22 of IFRS 8 that would require a brief description of both the operating segments that have been aggregated and the economic indicators that have been assessed.
10. The IASB asked the Interpretations Committee to consider this request. The Interpretations Committee discussed this issue at the July 2011 meeting (refer to [Agenda Paper 11](#)).

The IASB’s proposal to address the issue raised

11. The IASB deliberated this issue at the September 2011 meeting (refer to [Agenda Paper 7K](#)) and at the November 2011 meeting (refer to [Agenda Paper 2A](#)).
12. During its deliberations the IASB made the following observations about IFRS 8:
 - (a) Paragraph 12 does not elaborate upon the meaning of ‘similar economic characteristics’ except to say that operating segments that share similar economic characteristics would be expected to exhibit a similar long-term financial performance. In addition, determining whether operating segments have ‘similar economic characteristics’ requires the use of judgement.
 - (b) Paragraph 22(a) currently contains a requirement to disclose the factors that were used to identify the entity’s reportable segments, including the basis of organisation, and suggests, as an example, disclosing whether operating segments have been aggregated. However, there is no

explicit requirement in paragraph 22(a) to disclose the aggregation of operating segments.

13. The IASB agreed to include a disclosure to paragraph 22 by adding paragraph 22(aa). This paragraph is reproduced below:

22 An entity shall disclose the following general information:

(a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated); , and

(aa) where operating segments have been aggregated, the judgements made by management in applying the aggregation criteria in paragraph 12. In particular, a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining that they share similar economic characteristics (for example, profit margin spreads, sales growth rates etc); and

(b) (...)

14. The IASB observed that including a disclosure in paragraph 22 would provide users with an understanding of how (and the reasons why) operating segments have been aggregated.

Comment letter analysis

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

16. 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?*
17. The IASB received 84 comment letters on the ED in total.
18. Only 65 respondents expressed their views on the proposed amendment to paragraph 22 of IFRS 8.
19. The table below analyses the comment letters received on this topic by type of respondent:

Type of respondent	Number of comment letters
Preparer	21
Standard-setter	20
Accountancy body	12
Accounting firm	4
Users	3
Regulator	2
Other	3
Total number of respondents	65

Analysis of Question 1

20. In respect of Question 1, **almost two-thirds** of the respondents who replied to this question (a mix of preparers, users and standard-setters) **agreed** with the proposal to add paragraph 22(aa) to supplement the guidance in paragraph 22 of IFRS 8.
21. The reasons why some of those respondents support the IASB’s proposal are shown below:
- (a) (Bank of NY) notes that: “these amendments will provide enhanced and more transparent disclosures of what the ‘similar economic characteristics’ are for aggregated operating segments”.
- (b) (ICGN) thinks that “the ability to analyse in further detail aggregation judgments made by management, economic indicators used, and

management's view on the separation of operating segments will help users form a view of the performance of the individual activities of (complex) entities where details can be obscured by consolidation".

- (c) (AIA) thinks that "it will enable users to have a better understanding of the entity and the judgements applied by the entity's management".
- (d) (Mazars) notes that: "while the aggregation of two or more entities' operating segments is common, it is not always clear whether such an aggregation has been made. Besides, aggregation criteria under paragraph 12 of IFRS 8 are not easy to apply. Giving information as to how those criteria have been assessed will help users of financial statements understand the rationale behind the presentation of an entity's reportable segments".
- (e) (Repsol, Accounting Standards Committee of Germany and The Volkswagen Group) observe that the disclosure of the basis for aggregation would be helpful for the users of financial statements.

22. A few respondents (CBN, Accounting Standards Committee of Germany, the Volkswagen Group and CRUF) made observations on other aspects that the IASB could look at in its review of IFRS 8 that are indirectly related to the proposed amendment. We are not planning to analyse or discuss these aspects because they are not the subject of the main amendment. However, we have passed these proposals on to the staff responsible for analysing the comment letters received in the PIR review of IFRS 8². These aspects are as follows:

- (a) (CBN) questions why operating segments are not disclosed separately prior to their aggregation into one reportable segment.
- (b) (Mazars) doubts that the guidance in paragraph 12 of IFRS 8 is fully operational, because the strict application of the criteria in this paragraph would make aggregation a rare event.
- (c) (Accounting Standards Committee of Germany and The Volkswagen Group) think that the proposed disclosure requirement should include,

² The comment letter deadline for the PIR review of IFRS 8 is November 16, 2012.

in addition, an explanation on how the aggregation criteria in paragraph 12 (a)–(e) have been met³.

- (d) (The Hundred Group and PWC) thinks that the improvement should focus, instead, on explaining the meaning of similar economic characteristics in paragraph 12.
- (e) (CRUF) thinks that the entity’s ‘business model’ should drive the way in which segments are determined.

23. **Fewer than a third** of respondents expressed **disagreement** with the IASB’s proposal. Of these respondents:

- (a) half are preparers
- (b) a third are standard-setters;
- (c) a third are accountancy bodies;
- (d) one is a regulator; and
- (e) one is a user.

24. The main reasons why these respondents disagree with the proposed amendment are as follows:

- (a) The economic indicators included in paragraph 22(aa) that are used to assess whether operating segments share economic characteristics (ie profit margin spreads) are not reasonable and should be deleted; they think that the aggregation basis should instead be decided by management and judged by auditors (Roche Group, SEBI, The Volkswagen Group, Accounting Standards Committee of Germany, CRUF and EFRAG).
- (b) The objective of the proposed additional disclosure appears to be for detecting non-compliance (and it is written from an enforcer’s perspective) rather than for improving financial information (BusinessEurope and ACTEO).

³ These respondents also think that the examples of economic indicators in paragraph 22(aa) are not reasonable and should be deleted. We discuss this issue in paragraphs 27–**Error! Reference source not found.** of this agenda paper).

⁴ Users include: investors, lenders and other creditors.

- (c) The objective of the proposed additional disclosure appears to stem from an implementation issue rather than from an actual deficiency in the Standard (ICAEW).
- (d) The proposed amendment would create an unnecessary divergence with US GAAP (Shell International and BusinessEurope).
- (e) Changes to IFRS 8 are premature and should not be made until a full post-implementation review of IFRS 8 is completed (The Linde Group, Hong Kong Institute of Certified Public Accountants, Deloitte, ICAEW, British American Tobacco, Accounting Standards Committee of Germany and EFRAG).
- (f) the proposed amendment is not needed because the guidance in IFRSs is sufficient, as illustrated below:
 - (i) Paragraph 122 of IAS 1 *Presentation of Financial Statements* already requires entities to disclose judgements in applying an entity’s accounting policies (Roche Group, ACTEO and British American Tobacco).
 - (ii) The guidance in paragraph 22(a) of IFRS 8 is clear (ICAEW, and The Hundred Group), as is the guidance in paragraph 12, which requires that such segments exhibit similar long-term financial performance due to similar economic characteristics (Shell International and BusinessEurope).
- (g) the proposed disclosure is not useful, because:
 - (i) it is of little value for users⁴ (Roche Group , Shell International, The Linde Group, ICAEW, The Hundred Group and CRUF);
 - (ii) it adds to the existing volume of disclosures required under IFRSs (SAICA, ICAEW and FAR); and
 - (iii) it imposes a burden on preparers (The Linde Group).

⁴ Users include: investors, lenders and other creditors.

(h) the benefits of such a disclosure does not justify its costs (VMEBF and FAR).

25. We have grouped the above concerns into the issues below:

- (a) the examples of economic indicators are not reasonable;
- (b) the proposed disclosure is addressing an enforcement concern;
- (c) the proposed change would create divergence with US GAAP;
- (d) the proposed changes to IFRS 8 are premature; and
- (e) the proposed disclosure is not needed because:
 - (i) it is covered elsewhere in IFRSs; and
 - (ii) it is not useful for users.

26. We will analyse the concerns that we have identified above in the following paragraphs.

Examples of economic indicators in par 22(aa) are not reasonable

27. Respondents note that the economic indicators included in paragraph 22(aa) (ie profit margin spreads, sales growth rates etc) are not reasonable as aggregation criteria and would not help users to understand how operating segments are aggregated. Moreover, they think that the aggregation basis should be decided by management and judged by auditors.

28. We disagree with this point because we think that the examples of economic indicators in the proposed paragraph are examples of *long-term financial performance indicators*. In accordance with the first sentence in paragraph 12 of IFRS 8 (emphasis added):

“operating segments **often exhibit similar long-term financial performance** if they have similar economic characteristics”

29. Consequently, we think that those examples could be indicators of the existence of similar economic characteristics for operating segments.

30. We have observed, however, that some respondents have misinterpreted the examples included in paragraph 22(aa) and misunderstood them to be exhaustive.

31. We understand that the reason for including examples in paragraph 22(aa) was to provide other indicators that could be used in aggregating operating segments, because paragraph 12 only mentions one indicator (ie ‘long term average gross margins’). In our view this list of examples was never meant to be exhaustive.
32. Some are also of the view that including examples would prevent management from using other economic indicators to evaluate whether segments have similar economic features. On this matter, one of the respondents (EFRAG) states that (emphasis added):

EFRAG believes that in a principles-based accounting system, constituents should always refer to the overarching principles set out in paragraph 12 of IFRS 8 regarding aggregation. Accordingly, EFRAG believes that the wording of the amendments should be improved to make clearer that entities are first required to comply with such overarching principles in providing disclosures on the aggregation of reporting segments.

In addition, **EFRAG believes that the examples for specific economic characteristics provided in the proposed paragraph 22(aa) in brackets should be deleted as it is within the management’s discretion to provide disclosures consistently with the current guidance.**

33. We disagree with this view. We observe that the application of the aggregation criteria in paragraph 12 of IFRS 8 still requires a significant amount of judgement and it is management who should specify the economic indicators that have been evaluated (whether qualitative or quantitative) in aggregating the operating segments. Consequently, we do not think that the examples in brackets in proposed paragraph 22(aa) should be deleted.
34. We agree with the majority of the edits proposed by BP and KPMG at the beginning of paragraph 22(aa) to further clarify the focus of this disclosure, as follows (new text is underlined and deleted text is struck-through):

(aa) ~~where operating segments have been aggregated,~~ the judgements made by management in ~~applying in accordance with~~ the aggregation criteria in paragraph 12. In particular, a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that they share similar economic characteristics (for example, profit margin spreads, sales growth rates etc);

The proposed disclosure is addressing an enforcement concern

35. To some respondents, the objective of the proposed additional disclosure appears to be written from an enforcer's perspective. They also think that the proposed additional disclosure stems from an implementation issue rather than from an actual deficiency in the guidance in IFRS 8.
36. We disagree with this view. The submitter asked the IASB to consider some improvements in IFRS 8 to clarify the nature of the disclosures required when operating segments have been aggregated and to ensure that the identification and aggregation of operating segments is transparent enough to provide investors with useful information. We think that the proposed amendments meet this objective.

The proposed change would create divergence with US GAAP

37. The IASB has acknowledged the similarities between the requirements in IFRS 8 and the equivalent guidance in US GAAP in Topic 280 *Segment Reporting* in the *FASB Accounting Standards Codification*® (from which IFRS 8 was developed). However, as we noted above, by proposing the amendment to paragraph 22, the IASB has identified an area of improvement in IFRS 8 to ensure that the identification and aggregation of operating segments is transparent enough to provide investors with useful information.
38. At its meeting in November 2011, the IASB learned that the concern raised by the submitter has been shared by some staff at the Securities and Exchange Commission (SEC) in the United States. We included in [Agenda Paper 2A](#) of November 2011 the following extract to illustrate the views from the SEC staff:

Extract 1⁵:

The staff believes aggregation is a high hurdle and is appropriate only in situations where, as stated by the FASB in the basis for conclusions to SFAS 131, “separate reporting of segment information will not add significantly to an investor's understanding of an enterprise [because] its operating segments have characteristics so similar that they can be expected to have essentially the same future prospects.” **The FASB rejected recommendations that the aggregation criteria be indicators rather than tests. Therefore, after a company identifies their operating segments, aggregation is only allowed if the identified operating segments meet all of the aggregation criteria**, with the resulting segments being reported if they meet the significance test in paragraph 19 of the standard.

39. In our view the proposed amendment addresses the concern raised by the submitter, which we think is also consistent with the concerns described in the quotation above. The proposed amendment does not change the identification of operating segments or the basis in which they are aggregated. Consequently, we do not think that the proposed amendment creates divergence between US GAAP and IFRS 8.

Changes to IFRS 8 are premature

40. A few respondents assert that changes to IFRS 8 are premature and should not be made until a full post-implementation review of IFRS 8 is completed⁶.
41. We disagree with this view. The issue is one that is self-contained. The IASB decided that the issue could be sufficiently tackled by including a disclosure requirement in paragraph 22 that would provide increased clarity where diversity

⁵ Current Accounting And Disclosure Issues in the Division of Corporation Finance (see section II.L. on pages 50-52) (November 30, 2006); www.sec.gov/divisions/corpfin/cfacctdisclosureissues.pdf

⁶ We noted a similar comment on the proposed amendment to paragraph 28(c) of IFRS 8 which is discussed in Agenda Paper 10B of November 2012.

currently exists, while not revisiting whether or not aggregation of segments should be permitted and on what basis.

42. In addition, the IASB observed that the proposed disclosure is clarifying the type of information that should be included where operating segments have been aggregated, as part of the information already required by paragraph 22(a).
43. On the basis of the views that we expressed above, we do not think that the proposed amendment pre-empts the results of the post-implementation review of IFRS 8.

The proposed disclosure is covered elsewhere in IFRSs

44. Some of the respondents argue that the proposed amendment is not needed because paragraph 122 of IAS 1 already requires entities to disclose judgements in applying an entity's accounting policies. This paragraph states that (emphasis added):

An entity shall disclose, in the summary of significant accounting policies or other notes, **the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies** and that have the most significant effect on the amounts recognised in the financial statements.

45. Other respondents argue that the guidance in paragraphs 12 and 22(a) of IFRS 8 already requires the disclosure of the basis for aggregation of operating segments. One of these respondents (The Hundred Group) states that (emphasis added):

Financial statements are based on the use of judgement. If disclosure was required of every judgement that has been made, financial statements would be very long indeed. **We believe that paragraph 22(a) of IFRS 8 is sufficient in that it requires disclosure of the factors used to identify the entity's reportable segments. We do not believe that there is any benefit to users in explaining how and why operating segments have been aggregated into reportable segments.**

46. We disagree with the views expressed by these respondents. We note that the basis for the request sent by the submitter was that these disclosures are not being given.
47. We think that the guidance in paragraph 122 of IAS 1 is quite general and lacks specific detail about how this guidance would be applied when aggregating operating segments. We do not think that a description about how segments are aggregated would necessarily be triggered by the application of paragraph 122 of IAS 1.
48. Likewise, we think that the disclosure requirement to describe how operating segments are disaggregated is not necessarily apparent in paragraph 22. In fact we observe that paragraph 22 only requires a disclosure on “whether operating segments have been aggregated” but not necessarily the basis for such aggregation (ie “why operating segments were aggregated”).
49. Consequently, we agree with the IASB’s view that it should introduce a more specific requirement into IFRS 8 to disclose the basis for aggregating operating segments.

The proposed disclosure is not useful for users

50. Some respondents (Roche Group , Shell International, The Linde Group, ICAEW, The Hundred Group and CRUF) observed that the proposed disclosure is of little value for users. We reproduce below the comments from one of these respondents (emphasis added):

ICAEW

But we are not convinced that the insertion of an additional, prescriptive disclosure requirement will provide an adequate solution to this issue. **Disclosures of this type are invariably responded to with boiler plate text that clutters the financial statements while adding little information of value for users. In any case, the standard already contains a requirement to disclose the factors used to identify reportable segments and it is reasonable to expect that this would allow users to**

understand any difference between reportable and management segments.

51. We note that among those respondents who disagreed with the proposed amendment one is a user (CRUF)⁷. We reproduce this respondent's comments below (emphasis added):

CRUF

IFRS 8 - disclosures around aggregation decision – We do not support the proposed amendments. Users rely on segmental reporting to provide a clear insight into the business model and effective operations of companies in which they invest. This usually forms the main basis for our forward-looking forecasts. We therefore believe that the basis of aggregation needs to be business-led (effectively meaning that this should be done on the bases laid out for disclosure under paragraph 22(a)). **Whilst we have seen some aggregation of segments that we consider to be unhelpful, we do not favour economic characteristics, as described, determining the aggregation. We would strongly prefer the business model to drive the way in which segments are determined.** As an example we would want to see manufacturing split from services or fixed line split from mobile telephony even if the business sees them as part of the same segment because the drivers of the business are often different. **We recognise that this may require wider amendments to the IFRS than just not making the currently proposed amendments.**

52. We think that the commentator's proposal is a change from the way operating segments are currently aggregated under IFRS 8. We think that such change is beyond the scope of an annual improvement.

⁷ The other two users (ICGN and IACVA) who responded to this exposure draft did not raise a similar comment

Analysis of Question 2

53. With respect to Question 2, respondents that agreed with the amendment also **agree** with the transition and effective date of the proposed amendment to paragraph 22 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

54. On the basis of the analysis in the previous section, we think that the Interpretations Committee should recommend to the IASB that it should proceed with the proposed amendment to paragraph 22 of IFRS 8 which proposes adding paragraph 22(aa).
55. We also recommend to the Interpretations Committee that it should recommend to the IASB the inclusion of additional edits to paragraph 22(aa) to further clarify the focus of the proposed disclosure.
56. 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 Interpretations Committee agree to recommend to the IASB that it should proceed with the amendment to paragraph 22 of IFRS 8 (by adding paragraph 22(aa))?

2. Does the Interpretations Committee agree with the proposed edits to paragraph 22 (aa), and to the Basis for Conclusions, based on our discussion above?

Appendix A—Changes for finalising the amendment

A1. The proposed amendment to paragraph 22(a) is presented below.

Amendment to IFRS 8 *Operating Segments*

Paragraph 22 is amended and paragraph 36C is added (new text is underlined).

Disclosure

...

General information

- 22 An entity shall disclose the following general information:
- (a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated); and
 - (aa) the judgements made by management in accordance with the aggregation criteria in paragraph 12. In particular, a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that they share similar economic characteristics (for example, profit margin spreads, sales growth rates etc); and
 - (b) types of products and services from which each reportable segment derives its revenues.

Transition and effective date

- 36C *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraphs 22 and 28(c)⁸. 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.

⁸ This corresponds to the proposed amendment to IFRS 8 on the reconciliation of segment assets. This issue is discussed in Agenda Paper 10B of November 2012.

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

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

Paragraphs BC1–BC2 are added.

Aggregation of operating segments

- BC1 The IASB received a request to consider including a disclosure in paragraph 22 that would require a description of the operating segments that have been aggregated and the economic indicators that have been assessed to decide that operating segments have ‘similar economic characteristics’ in accordance with paragraph 12. The IASB observed that:
- (a) Paragraph 12 does not elaborate upon the meaning of ‘similar economic characteristics’ except to say that operating segments that share similar economic characteristics would be expected to exhibit a similar long-term financial performance. In addition, determining whether operating segments have ‘similar economic characteristics’ requires the use of judgement.
 - (b) Paragraph 22(a) currently contains a requirement to disclose the factors used to identify the entity’s reportable segments, including the basis of organisation, and suggests, as an example, disclosing whether operating segments have been aggregated. However, there is no explicit, or indeed apparent, requirement in paragraph 22(a) to disclose the aggregation of operating segments.
- BC2 The IASB noted that the disclosure is complementary to the information required by paragraph 22(a). The IASB thinks that including a disclosure in paragraph 22 would provide users with an understanding of the judgements made by management on how (and the reasons why) operating segments have been aggregated. The judgements made by management may relate to the application of any of the criteria in paragraph 12 of IFRS 8, which states that, two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of IFRS 8, the segments have similar economic characteristics and the segments are similar based on the factors listed in paragraphs 12(a)-12(e)). Consequently, the IASB added paragraph 22(aa) to complement the disclosure required in paragraph 22(a). The requirements in paragraph 22(b) remain the same and its wording has not been modified.

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

- B1 The amendment to paragraph 22(a) is presented below. New text that is proposed to be added on the basis of the comment letter analysis, arising from the proposed amendment included in the ED (May 2012), is shown with a double-underline. Text that is proposed to be deleted with respect to the proposed amendment included in the ED (May 2012), is shown with a ~~double-strike-through~~.

Amendment to IFRS 8 *Operating Segments*

Paragraph 22 is amended and paragraph 36C is added (new text is underlined and deleted text is ~~struck through~~).

Disclosure

...

General information

- 22 An entity shall disclose the following general information:
- (a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated); and
 - (aa) where operating segments have been aggregated, the judgements made by management in accordance with the aggregation criteria in paragraph 12. In particular, a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that they share similar economic characteristics (for example, profit margin spreads, sales growth rates etc); and
 - (b) types of products and services from which each reportable segment derives its revenues.

Transition and effective date

36C *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraphs 22 and 28(c)⁹. 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 BC1 –BC2 are added.

Aggregation of operating segments

BC1 The IASB received a request to consider including ~~an additional~~ a disclosure in paragraph 22 that would require a description of the operating segments that have been aggregated and the economic indicators that have been assessed to decide that operating segments have ‘similar economic characteristics’ in accordance with paragraph 12. The IASB observed that:

- (a) paragraph 12 does not elaborate upon the meaning of ‘similar economic characteristics’ except to say that operating segments that share similar economic characteristics would be expected to exhibit a similar long-term financial performance. In addition, determining whether operating segments have ‘similar economic characteristics’ requires the use of judgement.
- (b) paragraph 22(a) currently contains a requirement to disclose the factors used to identify the entity’s reportable segments, including the basis of organisation, and suggests, as an example, disclosing whether operating segments have been aggregated. However, there is no explicit, or indeed apparent, requirement in paragraph 22(a) to disclose the aggregation of operating segments.

BC2 The IASB noted that the ~~proposed~~ disclosure is complementary to the information required by paragraph 22(a). The IASB thinks that including a disclosure in paragraph 22 would provide users with an understanding of the judgements made by management on how (and the reasons why) operating segments have been aggregated. The judgements made by management

⁹ This corresponds to the proposed amendment to IFRS 8 on the reconciliation of segment assets. This issue is discussed in Agenda Paper 10B of November 2012.

may relate to the application of any of the criteria in paragraph 12 of IFRS 8, which states that, two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of IFRS 8, the segments have similar economic characteristics and the segments are similar based on the factors listed in paragraphs 12(a)-12(e). Consequently, the IASB ~~proposes adding~~ added paragraph 22(aa) to complement the disclosure required in paragraph 22(a). The requirements in paragraph 22(b) remain the same and its wording has not been modified.