EFRAG
European Financial Reporting Advisory Group

KSR
KOMITET STANDARDÓW RACHUNKOWOŚCI

Stowarzyszenie Księgowych w Polsce

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KRAJOWA IZBA BIEGŁYCH REWIDENTÓW

Joint Outreach Event

Warsaw

8 November 2012

Introduction and outline

EFRAG Outreach events

EFRAG holds outreach events in partnership with National Standard Setters and user groups across Europe on a regular basis on topics of general interest to constituents.

For more details of the Autumn 2012 series of events, please see the EFRAG website.

Joint Outreach Event, Warsaw, 8 November 2012

EFRAG, the Polish Accounting Standards Committee together with the Accountants' Association in Poland and the National Chamber of Statutory Auditors, organised a joint outreach event, held in Warsaw on 8 November 2012, for constituents to:

- Give evidence on their experiences preparing information under IFRS 8 *Operating Segments* as a contribution to the post-implementation review of that standard; and
- Debate and feedback on the EFRAG/ANC/FRC discussion paper *Towards a Disclosure Framework for the Notes* with an aim to eventually influence and provide input to the IASB on their envisaged disclosure framework project.

Summary of contents

Feedback statement

Purpose and use of this feedback statement

This feedback statement has been prepared to summarise the messages received from constituents at the outreach event.

Evidence on experiences with IFRS 8 *Operating Segments* will be used in the preparation of EFRAG's response to the IASB's *Request for Information.*

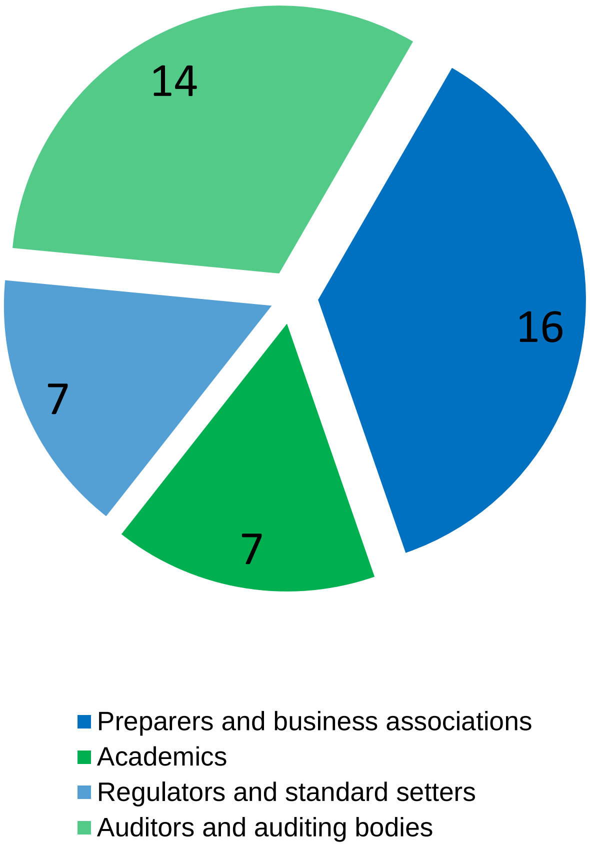
Feedback received from constituents on the EFRAG/ANC/FRC Discussion Paper *Towards a Disclosure Framework for the Notes* will be considered by EFRAG TEG, the French Standard Setter ANC and the UK Standard Setter FRC when deciding future steps for the project.

This feedback statement has been prepared by the EFRAG secretariat for the convenience of constituents. The content of the report has not been subject to review or discussion by the EFRAG Technical Expert Group.

Participating constituents

Participating constituents have extensive experience with IFRS and most were currently involved at a senior level.

Number by background



IFRS 8 Post-Implementation Review

IFRS 8 post-implementation review

Information to be considered together with this document

This document should be considered together with the IASB's *Request for Information*, issued as part of the post-implementation review. This, and other information on the project, are available on the EFRAG website.

Background to the post-implementation review

IASB technical principal Kristy Robinson briefly described the post-implementation review process, and noted that the number of responses to the request for information was currently limited. She also mentioned the more common issues that were raised around the standard:

- Identification of the Chief Operating Decision Maker – could it be more than one individual or group; and
- How and when to aggregate and disaggregate segments for reporting purposes.

There had been an expectation that IFRS 8 would result in an increase in the number of segments reported, and this was partially the case. In some jurisdictions, the change was limited but this could potentially be explained by the fact that entities had aligned their internal reporting to the external segment reporting.

Post-implementation reviews are a new part of the IASB's due process, and apply to new standards or major amendments that have taken effect since 2009. The post-implementation review of IFRS 8 is the first to be carried out. IFRS 8 was adopted in 2006, replacing IAS 14, and increased convergence between IFRS and US GAAP.

The outcome of the post-implementation review will be considered when the IASB decides on its future agenda, and options could include:

- Further monitoring should the post-implementation review be inconclusive;
- Retaining IFRS 8 as issued; or
- Revising IFRS 8 to remedy any problems identified.

Areas being investigated

The themes for investigation as part of the post-implementation review are the key decisions taken when adopting IFRS 8 as well as implementation experiences. These key decisions, and how they differ to those underlying IAS 14, are set out on the next page.

A review of existing academic literature and publically available material from accounting firms, regulators and investors has also taken place.

Changes from IAS 14 to IFRS 8

Management basis of identifying operating segments

IAS 14 required segments to be identified either on the basis of businesses or on the geographical environments where the business operated. IFRS 8 requires segments to be defined 'through the eyes of management', so segments are those used internally and reported to the chief operating decision maker (CODM).

Management determined measurement basis

IAS 14 required the amounts disclosed for each line item and segment to be on a measurement basis consistent with the rest of the financial statements (i.e. IFRS measurement basis). IFRS 8 requires the amounts to be on the same basis as the one used by the CODM when allocating resources.

Internally reported line items

IAS 14 required a company to disclose specific line items for each reported segment. IFRS 8 requires disclosure only if those line items are regularly reported to the CODM.

Disclosure requirements

As well as requiring reconciliations between the operating segment information required and IFRS numbers for certain line items, IFRS 8 also requires certain information across the entity, including revenue by type and country (where material).

Management basis for identifying operating segments

Summary of evidence received from constituents on the impact of the management approach to identifying operating segments

Area	Constituent	Comment
Identifying the Chief Operating Decision Maker	Preparer 1	The split was identified with sufficient ease. Our CODM is the Board.
	Preparer 2	It took some internal discussion and with the auditors to conclude on who the CODM was (the CEO). There is need for some judgment, but it is appropriate for a principle-based Standard. Much detailed guidance would make it too rigid.
	Academic	Strong support for a 'management view'. If entities must produce information only for reporting purposes, this is basically useless. If different entrepreneurs run the business differently, this must be reflected.
Identifying the segments	Preparer 3	The segments were completely changed upon introduction of IFRS 8. We looked at our internal reporting processes and reports. Good implementation guidance was available by the big accounting firms.
	Standard Setter	The local regulator has reported that there were few changes when entities moved from IAS !4 to IFRS 8. However, entities did not provide an analysis, so it is unclear whether internal reporting had been aligned to external segment information, or if entities failed to comply strictly with the new requirements.

Management determined measurement basis

Summary of evidence received from constituents on the impact of a management determined measurement basis – page 1

Area	Constituent	Comment
Are segment numbers reported under IFRS?	Preparer 1	We report segment information in compliance with local GAAP. We had originally identified 4 significant reconciling items to explain, and we added a fifth one based on questions received by users. We also have a number of reclassifications.
	Auditor 1	Different measurement basis are more common when entities provide segment information in individual or separate financial statements.
Are the segment numbers as thoroughly audited as reported numbers?	Auditor 1	Most of the discussions are about identification and aggregation of segments. The allocation of items can also be an issue. One problem is that IFRS 8 requires to choose one view, while management can use multiple perspectives to monitor the business. Finally, small companies are often forced to report more segments due to lower materiality thresholds.
	Auditor 2	Sometimes the level of disaggregation and explanation of the reconciling figures is insufficient.

Management determined measurement basis

Summary of evidence received from constituents on the impact of a management determined measurement basis – page 2

Area	Constituent	Comment
Making users aware of the measurement basis	Preparer 1	We do not allocate finance cost and income, or tax. It would be only a compliance exercise.
	Preparer 2	We also stop at Earnings Before Interest and Taxes.
	Auditor	In the banking industry, finance cost is often allocated based on internal cost of financing, rather than on external borrowing rates.

Internally reported line items

Summary of evidence received from constituents on the impact of only requiring disclosure of internally reviewed line items

Area	Constituent	Comment
Are very detailed reporting packages summarised for IFRS 8 purposes?	Auditor	Information should not provide excessive granularity. Management may be interested in monitoring very small items, but this does not mean that they should be disclosed.
	Preparer	We appreciate the flexibility in IFRS 8. We provide more detailed information than the minimum requirements in the Standard.

Entity-wide disclosures

Summary of evidence received from constituents on the entity-wide disclosure requirements

Area	Constituent	Comment
Information about geographic areas	General discussion	No specific issues were mentioned. Geographic information is based on where the customers are physically located.
Information about main customers	Auditor 1	When the entity has significant transactions with companies where the State Treasury is involved, normally this is not disclosed aggregated (i.e. companies are treated as "non related") as part of the entity-wide information.
	Auditor 2	Management can resist providing information on main customers for fear that concentration can be seen as a threat to the entity's going concern.

Towards a Disclosure Framework for the Notes

Towards a Disclosure Framework for the Notes

In July 2012 EFRAG in partnership with the French Standard Setter Autorité des Normes Comptables (ANC) and the UK standard setter Financial Reporting Council (FRC) published a Discussion Paper *Towards a Disclosure Framework for the Notes.* The FASB published a discussion paper of their own on the same day.

Background

The objectives of Discussion Paper are to:

(a) identify what disclosures are relevant for the notes to the financial statements;

(b) discuss what materiality means from a disclosure perspective; and

(c) develop a set of principles for good communication of disclosures.

The objective of the Disclosure Framework is to ensure that <u>all</u> and <u>only</u> relevant information is disclosed in an appropriate manner, so that detailed information does not obscure relevant information in the notes to the financial statements.

Information to be considered together with this document

To view information related to this discussion paper please access EFRAG's project webpage. The comment period closes on 31 December. Please send comments to commentletters@efrag.org.

Key principles in the discussion paper

The Discussion Paper identifies a number of key principles for a disclosure framework for the notes:

(a) Purpose and content of the notes;

(b) Setting disclosure requirements;

(c) Applying the requirements; and

(d) Communicating information

Content of the discussion paper

Following an introduction from EFRAG Chairman Françoise Flores and explanation of the motivation behind the EFRAG/ANC/FRC discussion paper, EFRAG Senior Project Manager Filippo Poli set out the content of the discussion paper, explaining each of the key principles identified above.

Open debate

An open debate, including questions on the discussion paper took place. The following pages summarise the key themes of the discussion and comments from constituents.

Setting the requirements

Summary of feedback received from constituents on setting the requirements

Constituent	Comment
Auditor	Setting the requirements through a list would make their work easier but believed there must also be flexibility. The problem to be addressed is how to bring about comparability while ensuring flexibility. The result can-not be a one-size-fits-all list. Sector and/or industry are important.
Preparer	Having a list of requirements to work from would be easier than having to decide what to disclose each year. Ideally any list would have more flexibility which does not always lead to poorer reporting. In particular, investor pressure will ‘force’ companies to include relevant disclosures.
Preparer	It is important to remember the purpose of disclosures, and in terms of determining based on sectors the principle divisions are banks/insurance companies/other. As to whether the notes should contain risk disclosures, the answer is emphatically yes. This is so users of financial statements can see in the notes information such as the disclosure of going concern. Many companies have very well developed reporting for other purposes (e.g. supervision). A linked question is how to split out financial statements from regulatory reporting.
Auditor	The industry of an entity will matter for which disclosures are included, because user expectations will depend on industry. A decision tree is probably the best way to assist preparers and auditors, however flexibility is important.
Auditor	The purpose of disclosures is so that users can diagnose the situation of the company. Therefore it is important disclosures are linked to management’s discussion and analysis. Perhaps the answer is to divide qualitative and quantitate data. Standard setters should set general objectives and do background work with analysts when deciding on requirements.
Analyst	Two accountants could come up with different answers when they had the same fact pattern. Therefore standards should give both absolute requirements and general directions
Preparer	Analysts mainly looked at disclosures around cashflows, which were important for understanding the future, not the situation at the balance sheet date.

Different approaches and differential disclosure regimes

Summary of feedback received from constituents on the different approaches and differential disclosure regimes

Constituent	Comment
Regulator of Auditors	From a certain standpoint, it is probably true that investor pressure would ‘force’ companies to include relevant disclosures. However, there are also other stakeholders whose needs would therefore be ignored. The invisible hand of the market does not work for all. As auditors view things from the standpoint of materiality, understanding of materiality is key to setting
Regulator of Auditors	In respect to disclosing based on the concept of an industry, this could be problematic because companies can operate in multiple industries.
Auditor	In an ideal world, there would be a range of alternatives. Information disclosed in the notes to the financial statements needs to be appropriate to the entity, and the financial statements should depict operations. Under the current IFRS standards, the requirements and associated costs are huge.

Applying the requirements

Summary of feedback received from constituents on applying the requirements

Constituent	Comment
Auditor	Companies would like to be able to not disclose lots of items. It would be difficult to put list of disclosures for IFRS in one document [as was the case under Polish GAAP].
Auditor	If a standard requires detailed disclosures, then it is difficult to say that non-disclosure would not be material – if something was not going to be material, why was a requirement to disclose included in the standard?
Auditor	Materiality is seen in different ways by users and preparers, which is difficult as conceptually materiality should be decided from the view of a user, but it has to be decided upon by a preparer. Therefore there should be more guidance on what is material and how to determine it.
Regulator	It is important that standard setters and regulators work together to give guidance on materiality.
Regulator of Auditors	Materiality is important in the development of guidelines, but in practice materiality is understood in very different ways. Given the history of disciplinary cases where materiality has been an issue, it is important to develop principles for determining materiality.

Communicating information

Summary of feedback received from constituents on communicating information

Constituent	Comment
Preparer	Around 10% of analysts ask for information not included in the financial statement. From the information requested, it appears that analysts only look at cashflows.
Preparer	The level of information disclosed depends on the attitude of the preparer. An example of this was in terms of contingent liabilities, which were approached from a view of what could go wrong.
Auditor	Materiality should be looked at in the context of time.