IFRS Briefing Sheet

Exposure Draft 8 *Operating Segments*

January 2006, **Issue 44**

On 19 January 2006 the International Accounting Standards Board (IASB) published an exposure draft (ED) of an International Financial Reporting Standard, ED 8 *Operating Segments*. This IFRS Briefing Sheet provides an overview of the proposals set out in this ED by comparing them with the existing requirements of IAS 14 *Segment Reporting*.

Background

This ED 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 the ED adopts the requirements of SFAS 131, except for some terminology.

Main Change – a Management Approach

ED 8 proposes 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 reviews regularly in allocating resources to segments and in assessing their performance. This "management approach" differs from IAS 14, which requires the disclosure of two sets of segments, business and geographical segments, based on a disaggregation of information contained in the financial statements.

Under the proposals operating segments would become reportable based on threshold tests related to revenues, results and assets.

This ED proposes the disclosure of "a measure" of profit or loss and total assets, which would comprise the amounts reported to the chief operating decision maker. Further profit or loss information, as well as an explanation of how segment profit or loss and segment assets are measured for each reportable segment, would be disclosed. Reconciliations of the totals of segment information to the entity's financial statements also would be required.

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Other Changes from IAS 14

Other proposed changes from IAS 14 include the following:

- The scope of segment reporting would be 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.
- A component of an entity could 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.
- This ED proposes more qualitative disclosure than IAS 14 requires, 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, this ED proposes disclosure about the entity's products and services, geographical areas and major customers. IAS 14 does not include this requirement.

Effective Date and Transition

The ED proposes an effective date of annual periods beginning on or after 1 January 2007, with the restatement of comparatives required. Earlier adoption will be encouraged.

Response to the IASB

The IASB has invited comments on this ED by 19 May 2006.

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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