IFRS Accounting

Staff paper

Agenda reference: 4

IFRS® Interpretations Committee meeting

Date	**November 2023**
Project	**Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8)**
Topic	**Initial consideration**
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission asking about the application of paragraph 23 of IFRS 8 *Operating Segments*, which requires an entity to report a measure of profit or loss for each reportable segment and to disclose specified amounts for each reportable segment.

2. The objective of this paper is:

    (a) to provide the Committee with a summary of the matter;

    (b) to present our research and analysis; and

    (c) to ask the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.

Structure of this paper

3. This paper includes:

    (a) background information;

    (b) Findings from information request and staff analysis related to:

(i) disclosing specified amounts for each reportable segment; and

(ii) material items of income and expense applying paragraph 23(f) of IFRS 8;

(c) staff recommendation; and

(d) questions for the Committee.

4. There are two appendices to this paper:

(a) Appendix A—suggested wording for the tentative agenda decision; and

(b) Appendix B—submission.

Background information

5. The submitter says it observes diversity in its jurisdiction in the application of two aspects of paragraph 23 of IFRS 8:

(a) how to read the requirement for an entity to disclose the specified amounts applying paragraph 23(a)–(i) for each reportable segment; and

(b) how to determine 'material items' applying paragraph 23(f).

6. Paragraph 23 of IFRS 8 states:

> An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:
>
> (a) revenues from external customers;
>
> (b) revenues from transactions with other operating segments of the same entity;

(c) interest revenue;

(d) interest expense;

(e) depreciation and amortisation;

(f) material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 *Presentation of Financial Statements* (as revised in 2007);

(g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;

(h) income tax expense or income; and

(i) material non-cash items other than depreciation and amortisation.

…

The questions asked

7. The submitter asks:

(a) Question 1: whether an entity is required to disclose the specified amounts in paragraph 23(a)–(i) of IFRS 8 for each reportable segment if those amounts are not reviewed separately by the chief operating decision maker (CODM).

(b) Question 2: whether an entity is required to disclose the specified amounts in paragraph 23(f) of IFRS 8 for each reportable segment if the entity presents or discloses those specified amounts applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1 *Presentation of Financial Statements*.

(c) Question 3: how an entity determines 'material items' in paragraph 23(f) of IFRS 8. In particular:

(i) are 'material items' only those that are material on a qualitative basis?

(ii) do 'material items' include amounts that are an aggregation of individually quantitatively immaterial items?

(iii) is the materiality assessment performed at an income statement level (from an overall reporting entity perspective) or at a segment level?

8. Appendix B to this paper reproduces the submission, which provides additional details about the questions and the views identified by the submitter.

Information request

9. We sent an information request to members of the International Forum of Accounting Standard Setters, securities regulators and large accounting firms. We also made the submission available on our website.

10. The submitter did not provide fact patterns on which the questions are based. The submission asks about the principles underlying the requirements, rather than their application in a particular situation. In our information request, we included the questions from the submitter and, to assist respondents in answering the questions, we included implied fact patterns that we developed based on those questions.

11. The implied fact patterns that we developed are as follows:

(a) Fact pattern 1: An entity does not disclose the specified amounts in paragraph 23(a)–(i) of IFRS 8 for each reportable segment. Those specified amounts are included in the measure of segment profit or loss reviewed by the CODM but are not considered by the entity to be reviewed separately by management (or by the CODM).

(b) Fact pattern 2: An entity does not disclose the specified amounts in paragraph 23(f) of IFRS 8 for each reportable segment because the entity presents or discloses those specified amounts in its financial statements applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1.

(c) Fact pattern 3: An entity applies ‘material items’ in paragraph 23(f) of IFRS 8 as:

(i) only those items that are material on a qualitative basis, such as unusual items (fact pattern 3(a)).

(ii) not including items or amounts that are an aggregation of individually quantitatively immaterial items (fact pattern 3(b)).

(iii) only those items that are material at a segment level (fact pattern 3(c)).

12. The information request asked those participating to provide information about:

(a) whether any of the implied fact patterns are common, considering each fact pattern independently; and

(b) if any of the implied fact patterns are common:

(i) whether those fact patterns are common across jurisdictions and industries or are common only in particular jurisdictions or industries (identifying and describing those jurisdictions or industries);

(ii) whether the accounting (including disclosure) for those fact patterns have a material effect on the entity's financial statements; and

(iii) whether respondents observe diversity in the accounting (including disclosure) for those fact patterns.

13. We received 16 responses—seven from large accounting firms, seven from national standard-setters, and two from organisations representing groups of securities regulators. The views received represent informal opinions and do not reflect the official views of those respondents or their organisations.

14. The findings from the information request, and our staff analysis of those findings, are presented in two sections in this paper:

(a) the requirements of paragraph 23 of IFRS 8 to disclose, for each reportable segment, specified amounts included in segment profit or loss reviewed by the CODM (implied fact pattern 1)—see paragraphs 15–26; and

(b) the meaning of material items of income and expense applying paragraph 23(f) of IFRS 8 (implied fact patterns 2 and 3(a)–3(c))—see paragraphs 27–59.

Disclosing specified amounts for each reportable segment

What do IFRS Accounting Standards require?

Principles underlying IFRS 8

15. In developing IFRS 8, the IASB adopted the management approach. The management approach bases segment reporting on the structure of an enterprise's internal organisation and information about segments that is generated for management's use, and therefore allows users of the financial statements to see an entity 'through the eyes of management'.[1]

16. Paragraph 1 of IFRS 8 sets out IFRS 8's core principle which is for an entity to 'disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates'.

17. Paragraphs 20–28 of IFRS 8 require an entity to disclose both general information about its reportable segments and information about profit or loss, and assets and liabilities, for each reportable segment.

Paragraph 23 of IFRS 8—information about segment profit or loss

18. Paragraph 23 of IFRS 8 requires an entity to report a measure of profit or loss for each reportable segment and to disclose specified amounts for each reportable segment.

[1] Paragraphs BC9–BC17 of the Basis for Conclusions on IFRS 8, and paragraphs 59–60 of the Financial Accounting Standards Board (FASB) Background Information and Basis for Conclusions on Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131), as reproduced in Appendix A to the Basis for Conclusions on IFRS 8.

Paragraph 23 sets out specified amounts that an entity is required to disclose for each reportable segment if those specified amounts are:

(a) included in the measure of segment profit or loss reviewed by the CODM; or

(b) otherwise regularly provided to the CODM, even if not included in that measure of segment profit or loss.

Findings from information request: specified amounts not 'reviewed separately' by the CODM

19. The information request described implied fact pattern 1 as follows: an entity does not disclose the specified amounts in paragraph 23(a)–(i) of IFRS 8 for each reportable segment. Those specified amounts are included in the measure of segment profit or loss reviewed by the CODM but are not considered by the entity to be reviewed separately by management (or by the CODM).

20. Most respondents say either that fact pattern 1 is not common or they could not determine whether it is common. A few say such a fact pattern is common, but they do not have evidence that it has a material effect. A few respondents report mixed views as to whether the fact pattern is common; most of those respondents say the fact pattern does not have a material effect, and one says it could have a material effect.

21. Some respondents, particularly the groups of securities regulators, say they observe diversity or mixed practice related to fact pattern 1. In particular:

(a) some preparers disclose comprehensive information to illustrate the derivation of segment profit or loss from segment revenues.

(b) some preparers do not disclose amounts such as cost of sales or personnel expenses by reportable segment even if those amounts are included in the measure of segment profit or loss reviewed by the CODM.

(c) some preparers do not disclose specified amounts by reportable segment if those amounts have not been reviewed or 'followed' by the CODM, even if those amounts are included in a measure of segment profit or loss. According to some of these respondents, preparers' bases for not providing disclosures include reference to:

(i) IFRS 8's principle of the 'management approach' and a view, therefore, that disclosure of specified amounts is not required unless the information is used or reviewed by the CODM.

(ii) the example in paragraph IG3 of the *Guidance on Implementing IFRS 8*, which illustrates disclosures required by paragraphs 23–24 of IFRS 8 and states that 'the amounts in this illustration … are assumed to be the amounts in reports used by the chief operating decision maker'. To some of these preparers, the wording in this example suggests that if the specified amounts in paragraph 23 of IFRS 8 are not included within the reports used by the CODM, those amounts are not required to be disclosed by reportable segment.

22. Many respondents, particularly national standard-setters and accounting firms, provided their view of how entities should apply paragraph 23. These respondents say that, in their view, if the specified amounts in paragraph 23(a)–(i) of IFRS 8 are included in a measure of segment profit or loss reviewed by the CODM or are otherwise 'regularly provided' to the CODM, even if not included in that measure of segment profit or loss, those specified amounts are required to be disclosed for each reportable segment. Some of these respondents say, therefore, paragraph 23 of IFRS 8 requires disclosure of specified amounts included in a measure of segment profit or loss even if those amounts are not 'reviewed separately' by entity management or the CODM.

Staff analysis

23. We note that paragraph 23 of IFRS 8 requires disclosure of specified amounts when those amounts are included in the measure of segment profit or loss reviewed by the CODM <u>or</u> are otherwise regularly provided to the CODM, even if not included in that measure of segment profit or loss.

24. In our view, the placement of the 'or' in paragraph 23 of IFRS 8 is important: the specified amounts are not required to be 'separately reviewed' by the CODM for those amounts to be separately disclosed. Accordingly, an entity is required to disclose the specified amounts for which *either* of the conditions in paragraph 23 is met. In our view, this reading is also consistent with the way in which many respondents to the information request appear to understand the requirements in paragraph 23 of IFRS 8 (see paragraph 22 of this paper).

25. In our view:

    (a) while the IASB adopted the management approach in developing the requirements in IFRS 8, an entity cannot apply wording in the Basis for Conclusions, such as about the management approach, to override specific requirements in the Standard.

    (b) the *Guidance on Implementing IFRS 8* accompanies, but is not part of, IFRS 8. The examples are non-authoritative illustrations to assist entities in applying the requirements. The wording in paragraph IG3 (see paragraph 21(c) of this paper) is part of the description of the fact pattern on which the illustration is based; that wording does not represent a requirement.

26. We therefore conclude that, in applying paragraph 23 of IFRS 8, an entity discloses specified amounts for each reportable segment if those specified amounts are either (a) included in the measure of segment profit or loss reviewed by the CODM, or (b) otherwise regularly provided to the CODM. In either of those circumstances, an entity discloses specified amounts for each reportable segment even if those specified amounts are not 'separately reviewed' by the CODM.

Material items of income and expense applying paragraph 23(f) of IFRS 8 (implied fact patterns 2 and 3(a)–3(c))

What do IFRS Accounting Standards require?

27. Paragraph 23 of IFRS 8 sets out requirements for an entity to disclose specified amounts for each reportable segment. Paragraph 23(f) of IFRS 8 sets out one of the required 'specified amounts'—'material items of income and expense disclosed in accordance with paragraph 97 of IAS 1'.

Paragraphs 97–98 of IAS 1

28. Paragraph 97 of IAS 1 states that 'when items of income or expense are material, an entity shall disclose their nature and amount separately'. Paragraph 97 is the first paragraph in a section in IAS 1 about 'information to be presented in the statement(s) of profit or loss and other comprehensive income or in the notes'.

29. Paragraph 98 of IAS 1 states:

> Circumstances that would give rise to the separate disclosure of items of income and expense include:
>
> (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
>
> (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
>
> (c) disposals of items of property, plant and equipment;
>
> (d) disposals of investments;
>
> (e) discontinued operations;
>
> (f) litigation settlements; and
>
> (g) other reversals of provisions.

Definition of 'material'

30. The term 'material' used in paragraph 97 of IAS 1 is defined in paragraph 7 of IAS 1:

> Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those financial statements, which provide financial information about a specific reporting entity.

31. Paragraph 7 of IAS 1 states that 'materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole'.

Aggregation of information

32. Paragraphs 29–31 of IAS 1 provide requirements for how an entity aggregates information in the financial statements, including in the notes. Paragraph 30A of IAS 1 states that 'an entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions'.

33. Paragraph 31 of IAS 1 states that 'an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements … An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient …'

Findings from information request: how entities apply paragraph 23(f) of IFRS 8

Material items vs unusual items

34. The information request described implied fact pattern 3(a) as follows: an entity applies 'material items' in paragraph 23(f) of IFRS 8 as only those items that are material on a qualitative basis, such as unusual items.

35. Most respondents say either that fact pattern 3(a) is not common or they could not determine whether it is common. One respondent says such a fact pattern is common, but they do not have evidence that it has a material effect. A few respondents report mixed views as to whether the fact pattern is common; most of those respondents say the fact pattern does not have a material effect, and one says it could have a material effect.

36. One accounting firm says fact pattern 3(a) is common and has a material effect but they do not observe diversity. One securities regulator says it observes diversity.

37. Many respondents to the information request say 'material' in the context of paragraph 23(f) of IFRS 8 is assessed based on both qualitative and quantitative factors. Some of these respondents say their view is supported by the general principle for 'materiality' in IAS 1 and IFRS Practice Statement 2: *Making Materiality Judgements*.

38. Some respondents to the information request say paragraph 97 of IAS 1 is applied in the context of paragraph 98 of IAS 1 and not in isolation—and, in their view, materiality is therefore assessed only on a qualitative basis considering the 'circumstances' included in paragraph 98. One accounting firm says it is common for entities to apply paragraph 23(f) of IFRS 8 to material items of income or expense that arise only from a <u>qualitatively</u> material event or circumstance—that is, events that are not considered to be part of the usual or normal day-to-day operations of the entity.

This firm says the ‘examples’ set out in paragraph 98 of IAS 1 support their interpretation.

39. A few respondents to the information request refer to US GAAP requirements for segment reporting and say that those requirements affect their interpretation of paragraph 23(f) of IFRS 8. For example:

(a) the accounting firm that observes that it is common for an entity to only apply paragraph 23(f) of IFRS 8 to ‘material items’ that arise from a qualitatively material event or circumstance (see paragraph 38 of this paper) says IFRS 8 and the US GAAP equivalent standard are converged. Because the US GAAP requirements refer to ‘unusual items’, this firm interprets ‘material items’ in paragraph 23(f) of IFRS 8 as ‘unusual items’.[2]

(b) one securities regulator says there could be inherent diversity in the application of ‘material items’ in paragraph 23(f) of IFRS 8, depending on whether entities are aware that the equivalent US GAAP requirements refer to ‘unusual items’. The regulator says this difference in terminology is not identified as a difference between US GAAP and IFRS Accounting Standards in paragraph BC60 of the Basis for Conclusions on IFRS 8.

40. However, one securities regulator says that although the circumstances listed in paragraph 98 of IAS 1 do not necessarily occur during every reporting period, those circumstances often occur at least sometime for every preparer—and therefore should not be viewed as ‘unusual’.

Interpretation of paragraph 97 of IAS 1 in the context of IFRS 8

41. The information request described implied fact pattern 2 as follows: an entity does not disclose the specified amounts in paragraph 23(f) of IFRS 8 for each reportable

[2] The US GAAP equivalent standard is codified in the FASB’s Accounting Standards Codification (ASC) Topic 280, Segment Reporting. The paragraph in US GAAP that corresponds to paragraph 23(f) of IFRS 8 is ASC paragraph 280-10-50-22(f) which states ‘unusual items as described in paragraph 220-20-45-1’. ASC paragraph 220-20-45-1 refers to ‘a material event or transaction that an entity considers to be of an unusual nature or of a type that indicates infrequency of occurrence or both … ‘.

segment because the entity presents or discloses those specified amounts in its financial statements applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1.

42. Most respondents say either that fact pattern 2 is not common or they could not determine whether it is common. One respondent says such a fact pattern is common, but they do not have evidence that it has a material effect. A few respondents report mixed views as to whether the fact pattern is common; most of those respondents say the fact pattern does not have a material effect, and one says it could have a material effect.

43. One accounting firm says fact pattern 2 is common and has a material effect and they observe diversity. A few other respondents, particularly securities regulators, say they observe diversity related to fact pattern 2.

44. Accounting firms provided a range of responses about how to consider the reference in paragraph 23(f) of IFRS 8 to paragraph 97 of IAS 1. For example:

(a) one says that, in their view, if an item of income or expense is presented in the statement of profit or loss or disclosed in the notes applying paragraph 97 of IAS 1, and that item is included in arriving at the segment profit or loss measure reviewed by the CODM, that item of income or expense is required to be allocated to the relevant segment(s) and disclosed. This firm also says, however, that in their view, paragraph 23(f) of IFRS 8 does not require a 'mini' statement of profit or loss to be disclosed by reportable segment on a systematic basis.

(b) one says, in their view, they do not see a scenario in which an amount that is required to be presented 'on the face' of the statement of profit or loss applying paragraph 97 of IAS 1 would not also be disclosed by reportable segment if the measure of segment profit and loss includes that amount.

(c) three say that, in their view, an entity is not required to disclose the specified amounts in paragraph 23(f) of IFRS 8 for each reportable segment if the entity presents or discloses those specified amounts applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1. Some national standard-setters also express this view. One of the accounting firms says paragraph 97 of IAS 1 is intended to 'top-up' material items of income or expense not specifically required to be disclosed by other IFRS Accounting Standards or not disclosed elsewhere in the financial statements. That firm says, for example, in its view an entity is not required to disclose cost of sales by reportable segment applying paragraph 23(f) of IFRS 8, because the entity presents or discloses cost of sales applying requirements other than paragraph 97 of IAS 1, such as paragraphs 99, 100 and 103 of IAS 1.

Aggregation of individually quantitatively immaterial items and materiality assessment at an income statement level or at a segment level

45. The information request described implied fact patterns 3(b) and 3(c) as situations in which an entity applies 'material items' in paragraph 23(f) of IFRS 8:

    (a) not including items or amounts that are an aggregation of individually quantitatively immaterial items (fact pattern 3(b)); and

    (b) as only those items that are material at a segment level (fact pattern 3(c)).

46. Most respondents say either that fact patterns 3(b) and 3(c) are not common or they could not determine whether those fact patterns are common. One respondent says such a fact pattern is common, but they do not have evidence that it has a material effect. One respondent reports mixed views as to whether the fact pattern is common but says the fact pattern does not have a material effect. One securities regulator says it observes diversity related to fact patterns 3(b) and 3(c).

47. Most respondents did not share observations about whether 'material items' in paragraph 23(f) of IFRS 8 include amounts that are an aggregation of individually quantitatively immaterial items. A few respondents say they do not observe entities aggregating individually quantitatively immaterial items as 'material items'. One

respondent says entities apply the aggregation requirements in paragraphs 30–31 of IAS 1.

48. Many respondents say materiality is assessed at the reporting entity level; a few respondents reference paragraph 2.11 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) as support.[3] One respondent says materiality considerations are overarching considerations that apply to the financial statements as a whole, including disclosures. On the other hand, another respondent says that if, in the context of paragraph 23(f) of IFRS 8, an item of income or expense is material to a segment, it should be disclosed for that segment.

Staff analysis

49. In our view, determining whether an item represents material information requires judgement, and the Committee would be unable to determine whether any particular item is material. However, we think the Committee can provide helpful direction to entities about what they need to consider, based on the requirements in IFRS Accounting Standards, in making that judgement.

50. It is important to consider that when IAS 1 refers to materiality, it is in the context of 'information' being material. An entity applies judgement in considering whether disclosing, or not disclosing, information in the financial statements could reasonably be expected to influence decisions of users of those financial statements. Therefore, an entity assesses whether an 'item of income and expense' (as used in paragraph 23(f) of IFRS 8) represents material information on the basis of the financial statements taken as a whole.

[3] Paragraph 2.11 of the *Conceptual Framework* states: 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports … make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.'

51. As we state in paragraphs 32–33 of this paper, paragraphs 29–31 of IAS 1 provide requirements for how an entity aggregates information in financial statements. Therefore, in applying paragraph 23(f) of IFRS 8 and determining material items of income and expense to disclose, an entity applies the requirements in paragraphs 29–31 of IAS 1 in considering whether to aggregate individually quantitatively immaterial items.

Material items vs unusual items

52. Paragraph 7 of IAS 1 states that 'materiality depends on the nature or magnitude of information, or both'. In our view, therefore, whether an 'item of income and expense' represents material information is assessed based on both qualitative and quantitative factors.

53. We therefore do not agree with the view of respondents to the information request, included in paragraph 38 of this paper, that material items of income and expense in paragraph 23(f) of IFRS 8 are those that arise from only a qualitatively material event or circumstance, such as events not considered to be part of the usual or normal day-to-day operations of the entity. In our view, a qualitative-only assessment of materiality does not align with the definition of 'material' in paragraph 7 of IAS 1 and related requirements. In addition, the 'circumstances' in paragraph 98 of IAS 1 are examples and not an exhaustive list that overrides or limits paragraph 97 of IAS 1.

54. We also do not agree with the view, included in paragraph 39 of this paper, that an entity needs to refer to US GAAP to determine how to apply 'material items' in paragraph 23(f) of IFRS 8.[4] Although the IASB largely adopted the requirements in US GAAP in developing IFRS 8, it used different wording for this specific requirement. Despite this wording difference not being mentioned in paragraph BC60 of the Basis for Conclusions on IFRS 8, it is our view that the IASB intended to refer

[4] Paragraph 12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* says an entity, in using its judgement in developing and applying an accounting policy, may also consider the most recent pronouncements of other standard-setting bodies—but only to the extent there are not applicable requirements in IFRS Accounting Standards.

to material items as used elsewhere in IFRS Accounting Standards and not by analogy to unusual items.

55. We therefore conclude that, in applying paragraph 23(f) of IFRS 8, an entity considers both qualitative and quantitative factors, representing the nature or magnitude of information, or both, in assessing the materiality of an item of income and expense.

Interpretation of paragraph 97 of IAS 1 in the context of IFRS 8

56. In our view, paragraph 97 sets out the overarching principle for when separate disclosure of an 'item of income or expense' is required in the financial statements, and paragraphs 98–105 of IAS 1 include additional information and requirements about how an entity applies paragraph 97. For that purpose, paragraph 98 of IAS 1 provides examples of circumstances in which separate disclosure would provide material information to the users of financial statements. Some of the information listed in paragraph 98 might also be required to be separately disclosed by other IFRS Accounting Standards—for example, disposals of items of property, plant and equipment (IAS 16 *Property, Plant and Equipment*) and discontinued operations (IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*).

57. We are therefore of the view that the requirements in paragraph 97 of IAS 1 are not necessarily 'top-up' requirements. We note that entities are not required to duplicate information disclosed applying other requirements—however, IAS 1 sets out overarching principles that an entity needs to consider to provide users of financial statements with the information they need to understand the entity's financial statements.

58. In our view, therefore, in applying paragraph 23(f) of IFRS 8, an entity cannot omit material items on the basis that those items are presented or disclosed applying a requirement <u>other than</u> paragraph 97 of IAS 1.

Summary of staff conclusions

59. In our view, in applying paragraph 23(f) of IFRS 8, an entity:

(a) applies paragraph 7 of IAS 1 and assesses whether the disclosure of information is material in the context of its financial statements taken as a whole;

(b) applies the requirements in paragraphs 29–31 of IAS 1 in considering how to aggregate information in the financial statements;

(c) considers both qualitative and quantitative factors, representing the nature or magnitude of information, or both, in assessing whether an item of income and expense is material; and

(d) does not omit material items on the basis that those items are presented or disclosed applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1.

Whether to add a standard-setting project to the work plan

Is the matter widespread and has, or is expected to have, a material effect?

60. Paragraph 5.16 of the *Due Process Handbook* sets out the criteria the Committee considers when determining whether to add a standard-setting project to the work plan. One criterion, included in sub-paragraph 5.16(a), is that ‘the matter has widespread effect and has, or is expected to have, a material effect on those affected’.

61. The findings from the information request summarised in paragraphs 19–22 and 34–48 of this paper indicate that this criterion is met for the implied fact patterns—that is, the matters are common (or widespread) and have, or are expected to have, a material effect on those affected. The findings also provide evidence of observed diversity in the application of paragraph 23 of IFRS 8. We acknowledge that some respondents to the information request say it is difficult to determine, when considering each of the implied fact patterns independently, whether the matters have, or are expected to

have, a material effect on those affected. Also, some respondents say it can be difficult to determine the root cause of observed diversity in segment disclosures.

Do the principles and requirements in the Standards provide an adequate basis for an entity to determine the required accounting?

62. Paragraph 5.16(b) of the *Due Process Handbook* states that the Committee decides to add a standard-setting project to the work plan if it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting.

63. Based on our analysis in paragraphs 23–26 and 49–59 of this paper, we conclude that this criterion is not satisfied—the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine required disclosures applying paragraph 23 of IFRS 8.

64. We also note that the IASB's Primary Financial Statements project, which is expected to result in the publication of a new IFRS Accounting Standard, IFRS 18 *Presentation and Disclosure in Financial Statements*, is expected to amend wording in paragraph 23 of IFRS 8[5] and paragraphs 97–98 of IAS 1[6].

Staff recommendation

65. Based on our assessment of the work plan criteria in paragraph 5.16 of the *Due Process Handbook*, we recommend that the Committee not add a standard-setting project to the work plan. We recommend that the Committee instead publish a

[5] Appendix A to Agenda Paper 21B for the November 2023 IASB meeting sets out a recommended consequential amendment to paragraph 23(f) of IFRS 8. As a result of the consequential amendment, paragraph 23(f) of IFRS 8 would refer to 'material items of income and expense disclosed in accordance with paragraph [X] of IFRS 18 [which would replace paragraph 97 of IAS 1], considering in particular the items listed in paragraph [BY] of IFRS 18 [which would carry forward paragraph 98 of IAS 1]'.

[6] Paragraph 98 of IAS 1 is expected to be carried forward (with a new paragraph number) into IFRS 18, and the lead-in sentence of the paragraph will refer to the list that follows as 'examples' of items of income and expenses.

tentative agenda decision that sets out the requirements in IFRS Accounting Standards applicable to how an entity applies paragraph 23 of IFRS 8.

66. Appendix A to this paper sets out suggested wording for the tentative agenda decision. In our view, the suggested tentative agenda decision (including the explanatory material contained within it) would not add or change requirements in IFRS Accounting Standards.[7]

Questions for the Committee

Questions for the Committee
1. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan? 2. Does the Committee have any comments on the wording of the tentative agenda decision suggested in Appendix A to this paper?

[7] Paragraph 8.4 of the *Due Process Handbook* states: 'Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.'

Appendix A—suggested wording for the tentative agenda decision

Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 *Operating Segments*)

The Committee received a request about how an entity applies the requirements in paragraph 23 of IFRS 8 *Operating Segments* to disclose for each reportable segment specified amounts related to segment profit or loss.

The request asked:

a. is an entity required to disclose the specified amounts in paragraph 23(a)–(i) of IFRS 8 for each reportable segment if those amounts are not reviewed separately by the chief operating decision maker (CODM)?

b. is an entity required to disclose the specified amounts in paragraph 23(f) of IFRS 8 for each reportable segment if the entity presents or discloses those specified amounts applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1 *Presentation of Financial Statements*?

c. How does an entity determine 'material items' in paragraph 23(f) of IFRS 8? In particular:

   i. are 'material items' only those that are material on a qualitative basis?

   ii. do 'material items' include amounts that are an aggregation of individually quantitatively immaterial items?

   iii. is the materiality assessment performed at an income statement level (from an overall reporting entity perspective) or at a segment level?

The Committee observed that there are two main aspects to the questions:

a. the requirements of paragraph 23 of IFRS 8 to disclose, for each reportable segment, specified amounts included in segment profit or loss reviewed by the CODM; and

b. the meaning of 'material items of income and expense' in the context of paragraph 97 of IAS 1 as referenced in paragraph 23(f) of IFRS 8.

Paragraph 23 of IFRS 8

Paragraph 23 of IFRS 8 requires an entity to report a measure of profit or loss for each reportable segment and to disclose specified amounts for each reportable segment. Paragraph 23 sets out specified amounts that an entity is required to disclose for each reportable segment if the specified amounts are:

a. included in the measure of segment profit or loss reviewed by the CODM; or

b. otherwise regularly provided to the CODM, even if not included in that measure of segment profit or loss.

The Committee observed that, in applying paragraph 23 of IFRS 8, an entity discloses specified amounts for each reportable segment if those specified amounts are either (a) included in the measure of segment profit or loss reviewed by the CODM, or (b) otherwise regularly provided to the CODM, even if not included in that measure of segment profit or loss.

The Committee concluded, therefore, that an entity is required to disclose the specified amounts in paragraph 23 of IFRS 8 not only when those specified amounts are separately reviewed by the CODM.

Paragraph 23(f) of IFRS 8 in the context of paragraph 97 of IAS 1

Paragraph 23(f) of IFRS 8 sets out one of the required 'specified amounts', which is 'material items of income and expense disclosed in accordance with paragraph 97 of IAS

1'. Paragraph 97 of IAS 1 states that 'when items of income or expense are material, an entity shall disclose their nature and amount separately'.

Definition of 'material'

Paragraph 7 of IAS 1 defines 'material' and states 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

Paragraph 7 of IAS 1 also states 'materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole'.

Aggregation of information

Paragraphs 29–31 of IAS 1 provide requirements for how an entity aggregates information in the financial statements, including in the notes. Paragraph 30A of IAS 1 states that 'an entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions'.

Applying paragraph 23(f) of IFRS 8—material items of income and expense

The Committee observed that when IAS 1 refers to materiality, it is in the context of 'information' being material. An entity applies judgement in considering whether disclosing, or not disclosing, information in the financial statements could reasonably be expected to influence decisions of users of those financial statements.

The Committee observed that, in applying paragraph 23(f) of IFRS 8, an entity:

a. applies paragraph 7 of IAS 1 and assesses whether the disclosure of information is material in the context of its financial statements taken as a whole;

b. applies the requirements in paragraphs 29–31 of IAS 1 in considering how to aggregate information in the financial statements;

c. considers both qualitative and quantitative factors, representing the nature or magnitude of information, or both, in assessing whether an item of income and expense is material; and

d. does not omit material items on the basis that those items are presented or disclosed applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1.

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to apply the disclosure requirements in paragraph 23 of IFRS 8.

Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Appendix B—submission

B1. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of the request.

…

Topic: Application of IFRS 8

INTRODUCTION

This document considers the disclosure of line items within specific segments in terms of the requirements of IFRS 8, Operating Segments.

We raise this matter as there is diversity in our jurisdiction as to what the words in the standards mean and their application thereof. We kindly request the IFRIC to consider this matter for their interpretation.

BACKGROUND

We have structured this paper by considering various IFRS Accounting Standards arguments as to why line items should/ should not be disclosed at segment level. We begin with a broader scope-clarity question, followed by questions around IFRS 8.23(f) - which is the paragraph at the center of the debates we have been having. In certain instances, we use narrative examples for illustrative purposes. We believe that it is useful to gain clarity on each individual question before moving to the next, but recognize that such an approach may not be practical.

We have used Italics to emphasise key words.

Three questions are asked regarding the current application of IFRS 8.23. These are listed below:

1) Do the specified amounts in IFRS 8.23(a)-(i) have to be reviewed separately by the Chief Operating Decision Maker (CODM) to qualify for per-segment disclosure?

2) Is per-segment disclosure under IFRS 8.23(f) required if the specified amount is (also) presented under another applicable IFRS Accounting Standard?

3) Regarding the application of 'material items' in paragraph 23(f) of IFRS 8:

   a. Are the material items referenced in IFRS 8.23(f) only those that are qualitative in nature?

   b. Is disclosure required if the specified amount in question is an aggregation of individually quantitatively immaterial items?

   c. Is the materiality assessment for an income or expense item done at an income statement level (i.e. from an overall reporting entity perspective) or at a segmental level?

IFRS REQUIREMENTS

The core principle of IFRS 8 is, per paragraph 1, that: “An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.”

IFRS 8.23 includes the following:

“Information about profit or loss, assets and liabilities

An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

(a) revenues from external customers;

(b) revenues from transactions with other operating segments of the same entity;

(c) interest revenue;

(d) interest expense;

(e) depreciation and amortisation;

(f) material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 *Presentation of Financial Statements* (as revised in 2007);

(g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;

(h) income tax expense or income; and

(i) material non-cash items other than depreciation and amortisation.

An entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so."

Relevant extracts of IAS 1 include the following (listed by paragraph number):

"Information to be presented in the statement(s) of profit or loss and other comprehensive income or in the notes

97 When items of income or expense are material, an entity shall disclose their nature and amount separately.

98 Circumstances that would give rise to the separate disclosure of items of income and expense include:

(a) write downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

99 An entity shall present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

104 An entity classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense."

APPLICATION OF IFRS ACCOUNTING STANDARDS

Question 1:

Do the specified amounts in IFRS 8.23(a)-(i) have to be reviewed separately by the CODM to qualify for per-segment disclosure?

Arguments for the YES position

In terms of the Basis for Conclusions, the intention of IFRS 8 is to follow the management approach for segment reporting and therefore disclose information which is reviewed by the CODM. This is supported by the following observations from the Basis for Conclusions on IFRS 8 *Operating Segments*:

- IFRS 8.BC9 considers the adoption of management reports and notes the primary benefits of adopting the management approach. It states that the (then) proposed IFRS would reduce the cost of providing disaggregated information for many entities because it uses segment information that is generated for management's use;
- IFRS 8.BC16 indicates that given the IASB's support for the principles of the management approach required by Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 131 *Disclosures about Segments of an Enterprise and Related Information* SFAS 131, the IASB decided that the simplest and most complete way to achieve convergence (with the FASB) would be to use the text of SFAS 131 for the IFRS;
- In IFRS 8.BC17, the FASB's thinking behind the management approach is presented in its Background Information and Basis for Conclusions; and

- IFRS 8.BC81 states that the information to be reported about each segment should be measured on the same basis as the information used by the CODM for the purposes of allocating resources to segments and assessing segments' performance, resulting in a management approach to measure segment information. The FASB did not think that a separate measure of segment profit or loss or assets should have to be developed solely for the purpose of disclosing segment information.

In our experience, the arguments put forward have been that, although a particular expense item is included in the calculation of a segmental profit measure that is reviewed by the CODM, that expense is *not separately* reviewed by management on a segment basis. For example, an entity includes employee benefits expenses into a segmental profit measure such as "operating profit", but the CODM only reviews the operating profit subtotal for that segment and not the specific amount of employee benefits expenses that has been included in the operating profit subtotal for that segment. Therefore, this disaggregated reporting would be developed solely for the purpose of disclosing segment information.

Furthermore, the argument is that to apply it any other way may result in excessive line items being disclosed in the segment note (and could even result in all line items from the statement of profit or loss being replicated)– detracting from the "management approach" that is foundational to IFRS 8.

<u>Why the [the submitter] believes the answer is NO</u>

IFRS 8.23 does not require the specified amounts in question to be separately provided to the CODM to qualify for per-segment disclosure. This is due to the wording in the standard itself which deals with:

i) amounts *included in the measure* reviewed by the CODM; and

ii) then an additional consideration through the separate inclusion of the words "or" referring to items specifically provided to the CODM.

IFRS 8.23 states that: " if the specified amounts are *included* in the measure of segment profit or loss reviewed by the chief operating decision maker, *or are otherwise regularly provided* to the chief operating decision maker, even if not included in the measure of segment profit or loss"

Thus, even if the items are not "*otherwise regularly provided* to the chief operating decision maker", we read IFRS 8.23 to mean that as long as the item of income and/or expense is:

- one of those specified in IFRS 8.23(a) to (i); *and*
- included in a segmental profit measure

then those material incomes and expenses need to be separately disclosed on a per-segment basis in the segment report. This approach still indirectly supports the 'management approach' because a segmental profit measure reviewed by the CODM is of interest to management and thus material components within that segmental profit measure would presumably also be of interest to management.

Question 2:

Is per-segment disclosure under IFRS 8.23(f) required if the specified amount is (also) presented under another applicable IFRS Accounting Standard?

We have included the word "also" in brackets for this question as in our discussion, companies have argued that although the amount may be material, they are not disclosing it under IAS1. 97, but rather are providing the disclosure under another IFRS paragraph.

Arguments for the NO position i.e. per-segment disclosure not required

IFRS 8.23(f) makes specific reference to items disclosed in accordance with IAS 1.97. Therefore, proponents for the NO position argue that, for example:

- Cost of Sales:

  May be presented on the face of the income statement if an entity presents its income statement by function in terms of IAS 1.99. In addition, IAS 2.36(d) requires disclosure of the amount of inventory recognised as an expense for the period (which is often considered to be all or part of cost of sales). As a result, cost of sales it is not separately disclosed in terms of IAS 1.97, but rather in accordance with other existing requirements. Therefore, IFRS 8.23(f) is not applicable.

- Employee benefits expenses:

IAS 1.99 requires an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function. If an entity has adopted a functional presentation, IAS 1.104 requires the entity to also disclose additional information on the nature of expense . The obligation to provide such disclosure is only required under this paragraph 104 of IAS 1. As such, "employee benefits expenses" are not being disclosed because of IAS 1.97 and do not have to be detailed in the segment report in terms of IFRS 8.23(f).

In summary, the proponents are of the view that IAS 1.97 is intended to 'top-up' the material items of income/expense that are not specifically required to be disclosed by other IFRS Accounting Standards.

Why the [submitter] believes the answer is a YES

It is important to note that all income and expense items that are material have to be disclosed in any case in terms of IAS 1.29, even without the requirement IAS 1.97.

IAS 1.97 is in fact the first paragraph in a section that considers 'information to be presented in the statement(s) of profit or loss and other comprehensive income or in the notes'. It is therefore appropriate to consider that paragraph 97 applies to all items that form part of comprehensive income (i.e. all of the disclosures that follow under this section).

IAS 1.97 refers to 'income or expense' without qualification as to a particular type or sub-type of income or expense. Therefore, we see IAS 1.97 to be the 'catch all' for all income and expense items. In other words, if the nature and amount of a material item of income and expense is disclosed because of another IFRS paragraph or standard, it is also being disclosed because of IAS 1.97. This is because had the other paragraph or standard not been effective, the nature and amount of that item would have been disclosed anyway in terms of IAS 1.97.

IAS 1.99 requires an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function. IAS 1.104 further requires that if an entity has opted for a functional presentation, it should also disclose information about expenses by nature. These two paragraphs read together are fully consistent with IAS 1.97 - requiring the presentation of *material items* of expenses grouped by *nature*. These two paragraphs (IAS

1.99 and IAS 1.104) refer to expenses, again without qualification, which is consistent with what is required by IAS 1.97.

In summary, our view is that IAS 1.99 and IAS 1.104 provide additional information on how an entity achieves the requirements in IAS 1.97, rather than requiring something different.

(Note the examples above focus on IAS 1.104 and IAS 2.36(d), but the same questions could apply to other disclosure obligations such as IFRS 7.20(a)(I) - gains/losses on derivative instruments)

<u>Question 3: Regarding the application of 'material items' in paragraph 23(f) of IFRS 8:</u>

Sub question 3(a)

Are the material items referenced in IFRS 8.23(f) *only* those that are qualitative in nature?

<u>Arguments for the YES position</u>

IAS 1.98 follows on from IAS 1.97 and provides examples of circumstances that would give rise to separate disclosure of items of income and expense. The examples are unusual or irregular items of income or expense thus implying that IAS 1.97 does not require a quantitative assessment of materiality to be made.

Another argument unpacks the convergence intention of the IASB and FASB. IFRS 8.BC3 and BC8 explain the IASB and FASB's decision to converge segment reporting standards. The excerpt from ACS 280-10-50-22 (set out below) requires 'unusual' items (rather than 'material' items per IFRS 8.23(f)) to be included in segmental disclosures.

Excerpt from ASC 280-10-50-22	Except from IFRS 8 par 23
A public entity shall report a measure of profit or loss and total assets for each reportable segment. A public entity also shall disclose all of the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss: a. Revenues from external customers b. Revenues from transactions with other operating segments of the same public entity c. Interest revenue d. Interest expense e. Depreciation, depletion, and amortization expense f. Unusual items as described in paragraph 220-20-45-1 g. Equity in the net income of investees accounted for by the equity method h. Income tax expense or benefit i. Subparagraph superseded by Accounting Standards Update No. 2015-01	An entity shall report a measure of profit or loss for each reportable segment . An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss: (a) revenues from external customers; (b) revenues from transactions with other operating segments of the same entity; (c) interest revenue; (d) interest expense; (e) depreciation and amortisation; (f) material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 Presentation of Financial Statements (as revised in 2007); (g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method; (h) income tax expense or income; and (i) material non-cash items other than depreciation and amortisation.

Presentation of Unusual or Infrequently Occurring Items (220-20-45-1)

A material event or transaction that an entity considers to be of an unusual nature or of a type that indicates infrequency of occurrence or both shall be reported as a separate component of income from continuing operations. The nature and financial effects of each event or transaction shall be presented as a separate component of income from continuing operations or, alternatively, disclosed in notes to financial statements (see paragraph 220-20-50-1). Gains or losses of a similar nature that are not individually material shall be aggregated. Such items shall not be reported on the face of the income statement net of income taxes. Similarly, the EPS effects of those items shall not be presented on the face of the income statement.

The view is that the above extracts provide context to the words in IAS 1.97 and aligns to the 'unusual or infrequent' nature of the examples in IAS 1.98 (i.e. only a qualitative assessment of materiality).

Why the [the submitter] believes the answer is NO

IAS 1.98 provides examples of items that should be presented separately. The paragraph is explicit that this is not a complete list.

The examples listed in IAS 1.98 serve as a reminder that qualitative materiality should be considered rather than an explicit statement that 1.97 only applies to these items or that all of these items should be disclosed.

Materiality (referred to in paragraph 97 of IAS 1) is both a qualitative and a quantitative assessment. This paragraph does not explicitly exclude either of these two.

Paragraph 2.11 of the conceptual framework explains that:

> Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports …. make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the *nature or magnitude, or both,* of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform *quantitative* threshold for materiality or predetermine what could be material in a particular situation.

Paragraph 41 of the Practice Statement 2: Making Materiality Judgments ("**PS2**") explains that:

> An entity might conclude that an item of information is material for *various reasons*. Those reasons include the item's *nature* or magnitude, or a combination of both, judged in relation to the particular circumstances of the entity [footnote omitted]. Therefore, making materiality judgements involves both quantitative and qualitative considerations. It would not be appropriate for the entity to rely on purely numerical guidelines or to apply a uniform quantitative threshold for materiality …. .

In our view, IAS 1.98 gives examples of items that are potentiality material from a qualitative perspective, but this does not limit the assessment of materiality to only qualitative items.

A narrow approach focusing only on qualitative information could:

- lead to the omission of disclosure of items that are not unusual but are quantitatively material; and
- result in disclosure of items that are listed in paragraph 98 but are completely immaterial in amount (i.e. if profit on disposal of property, plant and equipment is not material as defined, it would not have to be disclosed just because it is on this list).

An assessment about what is material will always require the entity to weigh up the qualitative and quantitative aspects. Either of the two aspects being present will trigger separate disclosure under IAS 1.97.

As it relates to convergence, IFRS does not have the concept of unusual or exceptional items. We need to read the words as reflected in the standards. The IASB intentionally referenced IAS 1.97 in IFRS 8. Had the IASB wanted to limit the disclosure to items that are unusual in nature (i.e. for the IFRS to be identical to US GAAP), they would have included words to that effect. It is likely they did not do so as there is no concept of 'unusual' in IFRS, only an assessment of materiality.

Sub question 3(b):

Is segmental disclosure not required if the specified amount in question is an aggregation of individually quantitatively immaterial items?

<u>Arguments for the YES position i.e. disclosure not required</u>

Disclosure, for example of an "employee benefits expense" or "operating expenses" line item is an aggregation of numerous transactions of a similar nature, as allowed by IAS 1.29 which states that:

> "An entity shall present separately each <u>material</u> class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial."

As IAS 1.97 uses the word "items" (as opposed to "line items") it refers to individual items, as envisaged by IAS 1.29, rather than a line item representing a grouping of similar items. In other words, if an item is to be separately disclosed it must be individually material at an itemised level. "Employee benefits expenses" or " operating expenses" is an aggregated figure of quantitatively immaterial individual expenses. Therefore, at an itemised level, this line item is not caught by IAS 1.97 and is thus out of the scope of IFRS 8.23(f).

Why the [submitter] believes the answer is NO

IAS 1.29 notes that items of a dissimilar nature or function should be presented separately. This suggests that an *item* is comprised of things that are similar in nature or function. Paragraph IAS 1.30 discusses aggregation. In particular, it states that "…the process of aggregation and classification is the presentation of condensed and classified data, which form line *items* in the financial statements.'"

From the above, we see that an '*item*' as used in IAS 1.97 is already a condensed form of potentially any number of similar transactions that have been grouped together. This is clear even when we look to the examples in IAS 1.98 – we would not expect that an entity would have to disclose every individual transaction comprising disposals of property, plant and equipment, even if they were for different types of property, plant and equipment. We would expect that they would be consolidated into a line item.

Therefore, IAS 1.97 read with IAS 1.29 and 1.30 would imply that the items required should be grouped or condensed by *nature* – i.e. they should be items that have a common nature. Accordingly, materiality is assessed at a line item level (i.e. the line item being the grouping of similar transactions).

Sub Question 3(c):

Is the materiality assessment for an income or expense item done at an income statement level (i.e. from an overall reporting entity perspective) or at a segmental level?

The [submitter's] view:

Paragraph 2.11 of the conceptual framework explains that:

> "In other words, materiality is an entity-specific aspect of relevance based on the *nature or magnitude*, *or both*, of the items to which the information relates in the *context of an individual entity's financial report*.

Therefore, as the materiality assessment for the purposes of IAS 1.97 is done in the context of the reporting entity's financial report, we understand it to mean that a materiality assessment for income and expenses should be done at an income statement level for the reporting entity. If at an income statement level, the income or expense item should be disclosed in the relevant segments (irrespective of its materiality to a specific segment).

That said though, under this topic users of the financial reports may be even more interested to understand the allocation across segments when it occurs disproportionally. An assessment at a segmental level may also be relevant, but the disclosure obligation of the standards do not appear to direct one to this answer.

REASONS FOR THE INTERPRETATIONS COMMITTEE TO ADDRESS THE MATTER

1. <u>Does the matter have widespread effect and does it, or is it expected to, have a material effect on those affected?</u>

The submitter has been engaged in detailed analysis and discussions within its own jurisdiction over the course of the past 12 months. During this period, the segmental reports of 16% of local IFRS reporters have been considered. Of those reports, 60% did not display the above problems, whilst the remaining 40% displayed these problems. The arguments for the approach varied and is captured in the above scenarios and questions. In order to obtain local resolution to the matter, the submitted engaged with a group of IFRS experts from a range of backgrounds (preparers, analysts and technical partners within the big audit firms). Views differed, with varying degrees of agreement across the above questions, ranging from 50% to 92% alignment with the submitter's views. As such we believe that there is significant diversity in practice within our jurisdiction.

The submitter also embarked on outreach activities on this topic through national securities regulators. The outreach was conducted by means of a meeting and a follow-up request for written views. The feedback from that outreach is set out below (Please note the feedback relates to 9 different jurisdictions across the Americas, Europe and Asia)

- 3 jurisdictions confirmed in writing that they see inconsistency in practice regarding the application of IFRS 8.23(f);
- 1 jurisdiction indicated in the meeting they had not weighed in on these sorts of issues at this stage, but shared the concerns and would undertake some research to identify current practice;
- 1 jurisdiction indicated in the meeting that they shared the concerns of the submitter but were not convinced that IFRS 8.23(f) extended to all examples set out in the question;
- 1 jurisdiction confirmed in writing that they agreed with the submitters views; and
- 3 jurisdictions expressed support in the meeting for the importance of segmental disclosures.

2. Is it necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, do the principles and requirements in the Accounting Standards not provide an adequate basis for an entity to determine the required accounting?

As described above, based on the experience and feedback through our extensive engagement at a detailed technical level within our own jurisdiction, we do not believe that all preparers and users reach the same conclusion based on their reading of the standards. This has led to the diversity in practice that we are experiencing.

3. Can the matter be resolved efficiently within the confines of the existing Accounting Standards and the Conceptual Framework for Financial Reporting?

Yes, we believe so. We believe that matter could be resolved through a combination of an agenda decision and/or a narrow-scope amendment to IFRS 8.23.

The final wording in IASB project on Primary Financial Statements could have a future effect on the application of IFRS 8, but we do not believe that it will address all of the aspects set out above, and even then it will not address the current diversity in practice.

4. Is the matter sufficiently narrow in scope that the IASB or the Interpretations Committee can address it in an efficient manner, but not so narrow that it is not cost effective

for the IASB or the Interpretations Committee and stakeholders to undertake the due process required to change an Accounting Standard?

We believe a narrow-scope amendment targeting IFRS 8.23 would be an efficient manner to solve this issue, unless the IFRIC assesses that an Agenda Decision would be an efficient way to solve it.