15 November 2012

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON THE REQUEST FOR INFORMATION: POST-IMPLEMENTATION REVIEW: IFRS 8 – *OPERATING SEGMENTS*

In response to your request for comments on the Request for Information: Post-Implementation Review: IFRS 8 – *Operating Segments*, attached is the comment letter prepared by Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Financial Reporting

cc: Paul O'Flaherty (Chairman of the Accounting Practices Committee)

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GENERAL COMMENTS

We welcome the publication of the Request for Information on the Post-Implementation Review: IFRS 8 – *Operating Segments*. Our responses and any additional comments on the Request for Information document are outlined below.

With the current discussion papers around Integrated Reporting and the formation of the International Integrated Reporting Committee, IFRS 8 will need to be monitored going forward to determine whether operating segment reporting belongs in the financial statements. The move in Integrated Reporting is to have integrated reporting covering, financial, economic, environmental, social and operational issues in an integrated manner. The operating segment report would be useful outside of the financial statements and within the integrated report to link to these other areas. Independent assurance can still be provided as with other sustainability data. Only then will the operating segment reporting lead to better understanding and analysis.

SPECIFIC COMMENTS

Question 1

Are you comparing IFRS 8 with IAS 14 or with a different, earlier segment-reporting Standard that is specific to your jurisdiction?
In providing this information, please tell us:
(a) what your current job title is;
(b) what your principal jurisdiction is; and
(c) whether your jurisdiction or company is a recent adopter of IFRSs.
If you work in a non-IFRS environment your input is still useful to us—but we would like to know about your current reporting of operating segments so that we can assess your information in that context.

We are comparing IFRS 8 to IAS 14.

(a) The Accounting Practices Committee of the South African Institute of Chartered Accountants (SAICA) is the technical accounting committee of SAICA comprising of preparers of financial statements, auditors, regulators, IFRS specialists and academics. We have received input from preparers from the following industries; banking, mining, manufacturing, construction, telecommunications and analysts.

(b) South Africa.

(c) No, our jurisdiction is not a recent adopter of IFRS. In 2003 our local standard setter agreed to issue IFRS as Statements of GAAP without any change, which therefore required all companies in terms of the Companies Act to effectively apply IFRS. From 2005 all companies listed on the Johannesburg Stock Exchange (JSE) were required to apply IFRSs as issued by the IASB.

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Question 2

What is your experience of the effect of the IASB's decision to identify and report segments using the management perspective?

Investors: please focus on whether our initial assessment—that the management perspective would allow you to better understand the business—was correct. What effect has IFRS 8 had on your ability to understand the business and to predict results?

Our analysts have noted that they are fully supportive of the decision to use the management perspective for the reporting segments as this approach is more useful to enable management to report externally. However, they have also indicated that internal reporting lines are sometimes not used adequately, and are rather aggregated to provide a consolidated (or 'segmental') view of operations. In this way it is difficult to obtain insights from consolidated segments. As a result the reporting entity may use its discretion and in some instances this results in less useful or insightful disclosure.

Furthermore, the analysts have also indicated that the application of IFRS 8 has resulted in a loss of comparability between companies and jurisdictions.

Preparers: please include information about whether your reporting of operating segments changed when you applied IFRS 8. If it did, what effect did that change have on the efficiency of your reporting processes and your ability to communicate with investors?

Some of our preparers indicated that their reporting of operating segments changed when they adopted IFRS 8 and commend the IASB for this change as this resulted in an improvement and simplification to their reporting processes. They noted that with the adoption of IFRS 8, the reportable segments, reported on under IAS 14, changed and in most instances this resulted in entities having to identify additional operating segments. With this change there was a requirement for some entities to amend reporting systems to enable them to produce information more easily. Having said this, the ability to report financial information on the same basis used for internal reporting purposes, under IFRS 8 management perspective, enhanced the efficiency of their reporting processes and enhanced their communication to investors.

A point was raised that, in practice, despite the intent of IFRS 8 and the often-significant disclosures that accompany it, users, and notably analysts, are reluctant to move away from the key metrics that are regarded as relevant in determining value. Therefore in practice, there seems to be a disconnect between the management approach ('through the eyes of management') adopted by IFRS 8 and the fundamental information needs of the users. In addition, to improve the usefulness of segmental disclosures to users we suggest that entities provide more explanations on how the group is managed and how the segments were derived rather than stating in the disclosures that the segmental information is based on the Chief Operating Decision Maker (CODM) reporting. Furthermore, under the management approach in IFRS 8 the ability to compare entities engaged in similar businesses has been removed due to the mixture between the management approach followed, the application of aggregation criteria and quantitative thresholds. We encourage the IASB to consider this when making any amendments to IFRS 8.

Other preparers indicated that their reporting of operating segments under IAS 14 had not changed when they applied IFRS 8. The reason given for this was that for some entities their reporting processes have been maintained in such a manner that, even under IAS 14, their internal reporting has always been aligned to external reporting. For this reason there was no major effect on the efficiency of their reporting processes.

Question 3

How has the use of non-IFRS measurements affected the reporting of operating segments?

Investors: please comment on the effect that the use of non-IFRS measurements has had on your ability to understand the operating risks involved in managing a specific business and the operating performance of that business. It would be particularly helpful if you can provide examples from published financial statements to illustrate your observations and enable us to understand the effects that you describe.

Our analysts have noted that they have not been affected by the use of non-IFRS measurements in the reporting of operating segments.

Preparers: it would be helpful if you could provide information about whether you changed your measurement basis for operating segment information on the application of IFRS 8 and, if so, what effect this has had on your ability to communicate information about operating risks and performance with investors and other users of your financial statements.

Some preparers noted that their measurement basis changed with the use of non-IFRS measurements. Some of these changed measures were for example:

- their accounting for joint ventures and associates which were equity accounted: In the segment reporting such items were shown as proportionately consolidated;
- hedge accounting: The principles of hedge accounting were applied even though the IAS 39 – *Financial Instruments: Recognition and Measurement*, requirements for hedge accounting were not met;
- the accounting for special purpose vehicles;
- accounting for share-based payments; and
- inventory provisions.

Preparers adjusted the segment results to either eliminate the impact of these items or present the results in a different manner which is not allowed in terms of IFRS. The preparers were of the view that this better reflected the way in which they manage the business.

Other non-IFRS measures included the use of adjusted earnings measures. This is fairly common in our jurisdiction.

Other preparers, particularly those that did not change their reporting of operating segments when they adopted IFRS 8, noted that there were no changes to the measurement basis for operating segment information for the following reasons:

- their basis of reporting segments when they transitioned to IFRS 8 was still in accordance with accounting policies adopted for preparing and presenting consolidated financial statements;

- for some, non-IFRS measures are often confined to non-financial information and they present this information in the integrated report. This information often includes a link between the group's strategy and performance against the strategy and targets. In most cases, the targets include financial (based on IFRS) and non-financial information. Another area where entities include non-IFRS measurements is in analysts booklets that are made available to investors on release of financial results. This information is presented by segments as identified in IFRS 8 and provided as supplemental information to the investors; and

- they use IFRS financial information for reporting segments as some information based on non-IFRS measures may lead to a loss of competitive advantage related to pricing and costs as this results in entities sharing sensitive information with its competitors.

Question 4
How has the requirement to use internally-reported line items affected financial reporting?

Investors: please focus on how the reported line items that you use have changed. Please also comment on which line items are/would be most useful to you, and why, and whether you are receiving these.

Whilst our investors appreciate the use of the management approach in IFRS 8, they noted that the move away from the line item disclosure prescribed by IAS 14 – *Segment Reporting,* to only those line items reviewed by the CODM has created a situation where some companies disclose less information than before. For example, disclosures about the operating assets and liabilities per segment is often omitted. This is crucial information for a user of financial statements (investor) in order to ascertain the operating performance on a segmental basis. Investors often use this crucial information to compute the return on operating assets per segment, which is a primary input into many valuation models. We would suggest that the line item disclosure requirements of IAS 14 be incorporated into IFRS 8 as a minimum level of line-item disclosure, so as to ensure that at the very least line items such as revenue, profit/loss, depreciation and operating assets and liabilities are disclosed.

Preparers: please provide information about any changes in reported line items that resulted from the application of IFRS 8.

Our preparers noted that there was no impact on the reported line items on the adoption of IFRS 8. As noted in our response to question 2 above, more reporting segments were identified, for some they revised their reports structure and this was to ensure that internal management information was reconciled with the IFRS statements and others noted that the segment report became shorter as geographic information was no longer being reported. However, with these changes the same line items were still being reported on (for example, total revenue, inter-segment revenue, external revenue, depreciation and amortisation and operating profit).

Others noted that there were slight changes to their reporting line items including the addition of a line item on the number of employees and revisions to the descriptions of line items.

Question 5
How have the disclosures required by IFRS 8 affected you in your role?

Investors: please provide examples from published operating segment information to illustrate your assessment of the disclosures relating to operating segments. Do you now receive better information that helps you to understand the company's business? Please also comment on the specific disclosure requirements of IFRS 8—for example, those relating to the identification and aggregation of operating segments; the types of goods and services attributed to reportable segments; and the reconciliations that are required. It would also be useful to indicate whether you regularly request other types of segment disclosures.

The perception from the analysts in our jurisdiction was that the disclosures required by IFRS 8 are useful; however, as sometimes the information is limited it made it difficult to predict results.

Preparers: please consider whether operating segment disclosures are more or less burdensome when based on information prepared in accordance with your own internal reporting requirements. If any requirements are burdensome, please provide details of those disclosures and explain why they are costly or time-consuming to prepare. Do you think that the information you present now about operating segments conveys better information to investors and shareholders? It would be useful to indicate whether you regularly report any segment information in addition to that required by IFRS 8.

Some preparers in our jurisdiction indicated that whilst there have been some changes to their operating segment disclosures prepared in accordance with own internal reporting requirements these have not been seen to be onerous as the information required for the disclosures is often readily available. In addition, they have indicated that the disclosures required by IFRS 8 have assisted in providing useful information to the users, for example, information on the split in their business units.

Other preparers cited that they have encountered practical difficulty with the application of the requirement to provide disclosures on inter-segmental information as most of their business units are relatively independent of each other and inter-segmental transactions are often incidental in meeting the needs of their clients. Thus ensuring that appropriate systems are in place, other than ensuring that no internal mark-ups are recognised, could prove to be cumbersome for these entities.

Question 6

How were you affected by the implementation of IFRS 8?

Preparers: in answering this question please focus on whether you incurred significant unexpected costs, either as a one-time expense when implementing the Standard or as a recurring cost at each reporting cycle. If you did incur unexpected costs, please explain what these were and in what way they were required to comply with IFRS 8.

Some preparers indicated there were no additional costs incurred, for example costs to implement new systems or staff costs or audit fees, on the adoption of IFRS 8. For others the only incremental costs incurred related to audit fees in the first year of implementation as more time was spent to verify that IFRS 8 was correctly applied, in particular, that the operating segments were correctly identified in terms of this new standard.

In addition, we would like to know what practical difficulties you encountered, if any, when applying IFRS 8. Did you find that IFRS 8 is clear about all aspects of the requirements, such as the identification of operating segments, aggregation of segments and the nature of the CODM? If IFRS 8 is not clear, please provide details of your experience.

Some preparers noted that they have not encountered any practical difficulties in applying this IFRS. However, some noted that in most instances, identifying the CODM within an entity may be fairly simple, however, in large conglomerates and multinationals, identification of the CODM can sometimes be a challenge. The experience of some of our preparers has been that when a CODM cannot be readily identified, the only resort available is to assess the information presented at the various decision making levels of the entity, such as the directing or management committee, executive committee and/or board of directors. Guidance to assist in identifying the CODM may assist, because of the subjectivity involved.

Moreover, some entities have experienced difficulties in applying the aggregation criteria, specifically the requirement for two or more operating segments to be aggregated into a single operating segment if the segments have similar economic characteristics. The difficulty with this requirement is that there are no stated indicators against which to assess 'similarity'. Again, more application guidance in this regard would be welcome.

Investors: please focus on whether the way in which you use financial reports has changed as a result of applying IFRS 8. Please explain to us what that effect was and the consequences of any changes to how you analyse data or predict results.

Our analysts noted that they have not changed the manner in which they use financial reports that are based on IFRS 8.

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