Mazars' newsletter on accounting standards

Beyond the GAAP

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Editorial

The IASB and the FASB expect to publish their joint standard on revenue recognition by the end of this year. However, the mandatory effective date is not likely to be before 2017.

The two Boards have decided that in the post-implementation period they will form a working group to identify potential implementation difficulties, and discuss issues related to common transactions that could create diversity in practice.

This initiative is the first of its kind; does it reflect a new commitment by the Boards to facilitate the implementation of new standards? Does this mean that in the future we will see a longer period between the publication of new standards and their mandatory effective date, to be spent identifying and addressing difficulties in implementation? In any case, it looks as though this approach would have been very useful in the run-up to the mandatory effective date for the new consolidation standards.

Enjoy your reading!

Michel Barbet-Massin Edouard Fossat

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Editors in chief:
Michel Barbet-Massin, Edouard Fossat

Columnists:
Sébastien Crouzet, Edouard Fossat, Vincent Guillard, Carole Masson, Egle Mockaityte and Arnaud Verchère.

Contact us:
Mazars
Exaltis, 61, rue Henri Régnault
92 075 – La Défense – France
Tel.: 01 49 97 60 00
www.mazars.com

News

French private-sector bodies propose reforms to IFRS adoption process in Europe

In July 2013, AFEP and MEDEF (organisations representing French private-sector companies) published a report entitled "Strengthening the process for adopting international accounting standards: a strategic challenge for the European Union".

The report, which was drawn up by a committee chaired by Michel Pébereau (BNP Paribas, honorary Chairman), is focused on sustaining the use and boosting the quality of IFRS; restructuring the process for adoption of IFRS by the European Union; and allowing the European Union to move towards greater sovereignty.

With this in mind, it makes the following proposals:

- "Reforming the conceptual framework of the IFRS, so that the standards produced better meet the needs of the European economy (immediate action);
- Reforming the structure and governance of the European system for adopting accounting standards (immediate action, which can be undertaken within the scope of current texts);
- Revising European regulations in order to give the EU the option of modifying a standard if it deems it necessary (European legislative process in co-decision)."

The report can be accessed via the following link:

http://www.medef.com/fileadmin/www.medef.fr/documents/AFEP-MEDEF/MEDEF-AFEP-Report-International-accounting-standards.pdf

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IASB publishes Discussion Paper on the Conceptual Framework

On 18 July 2013, the IASB published a Discussion Paper on the Conceptual Framework. This is the first stage in its project on revising the Conceptual Framework.

Readers will remember that the project was reinstated on the IASB's work plan in September 2012 and has since formed a key part of the Board's discussions at its monthly meetings.

The current Discussion Paper is intended to gather opinions on the broad outlines of the future Conceptual Framework, focusing particularly on the following areas:

- definitions of assets and liabilities;
- recognition and derecognition;
- the distinction between equity and liabilities;
- measurement;
- presentation and disclosure; and
- other comprehensive income.

The comment period is open until 14 January 2014.

More details are available on the IASB's website via the following link:
http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-publishes-a-Discussion-Paper-on-the-Conceptual-Framework.aspx

Mandatory effective date for IFRS 9 delayed again

At its July 2013 meeting, the IASB decided once again to defer the mandatory effective date of IFRS 9. The standard was originally intended to be mandatory for financial periods starting on or after 1 January 2013, but was subsequently deferred to 1 January 2015.

This time, the IASB has decided to defer the mandatory effective date again without specifying a new date. The IASB plans to set a date once all phases of IFRS 9 are finalized. However, early application of IFRS 9 should still be permitted as far as the IASB is concerned[1].

The IASB also decided at the same meeting to amend IFRS 9 in order to permit early application of the own credit risk requirements, even though all phases of the standard are not yet complete.

However, at the time of writing, the IASB does not seem to be considering making any amendments to IAS 39 relating to the own credit requirements.

[1] *European companies cannot apply new standards until they have been adopted by the European Union. The EU adoption process for IFRS 9 is currently on hold.*

Transition resource group created to address difficulties in implementing future revenue recognition standard

In July 2013, the IASB and FASB announced that a joint transition resource group would be created soon after the publication of the future revenue recognition standard (which is still scheduled for the third quarter of 2013). The group will identify issues which could lead to divergences in practice when transitioning to the new standard. The group will not issue guidance; rather, it will pass on its findings to the IASB and FASB who will then decide on the appropriate response to the issues identified by the working group.

The group will be made up of 10 to 15 people, including preparers of financial statements, auditors, regulators, users of financial statements, etc. as well as members of the FASB and IASB. The group members will be announced following the publication of the revenue recognition standard.

The stated goal of this initiative is to do everything possible to facilitate transition in this key area in the run-up to the effective date on 1 January 2017.

Launch of post-implementation review of IFRS 3

After completing the post-implementation review of IFRS 8 (see 'A Closer Look' in this issue), the IASB has launched the review of IFRS 3.

As with IFRS 8, an initial phase of outreach work and a review of academic and other studies will allow the IASB to scope out the issues which should be included in the forthcoming formal Request for Information.

The goal of the post-implementation review is to ensure that IFRS 3 is being applied consistently and that no unwanted consequences have resulted from its publication.

The review will focus on analysing the changes introduced in 2004 (when IFRS 3 was first published) and in 2008 (when the standard was revised).

Following the review, the IASB will decide whether any amendments to IFRS 3 are needed.

➲ Acquisition of an interest in a joint operation: IFRS Interpretations Committee looks at comment letters

In December 2012, the IASB published an exposure draft on the proposed limited amendments to the accounting treatment of the acquisition of an interest in a joint operation under IFRS 11 – *Joint Arrangements* (see the December 2012 issue of *Beyond the* GAAP). The exposure draft was the result of work carried out by the IFRS Interpretations Committee following a request for clarification.

In July 2013, the Committee analysed the 70 comment letters received in order to identify the next steps. The Committee noted that a large majority of the comment letters supported the main proposal of the exposure draft. Thus, a joint operator shall apply IFRS 3 – *Business Combinations* to the extent of its interests in the assets and liabilities of a joint operation, if this operation meets the definition of a 'business' as set out in IFRS 3.

However, a majority of commenters also requested the IASB to provide more guidance on a number of related issues, including the following:

- The accounting treatment for acquisitions of an additional interest in a joint operation, without acquiring control;
- The accounting treatment, in the financial statements of a joint operator, for the sale or contribution of assets to a joint operation (should full, partial or no gain or loss be recognised?)

The majority of the Committee members felt that these questions were not sufficient grounds for deferring the amendments proposed initially. They felt that the amendments constitute the most appropriate accounting treatment and will reduce diversity in practice. However, the requests for additional guidance will be brought to the attention of the IASB, which will then decide whether or not to address these additional issues.

The IASB will now make a formal decision on whether or not to finalise the amendments to IFRS 11.

➲ Presentation of OCI when using the equity method: IFRS Interpretations Committee recommends amendment to IAS 1

In July 2013, the IFRS Interpretations Committee examined a request for clarification of IAS 1, following the June 2011 amendments which resulted in the redrafting of the paragraphs on the presentation of items of other comprehensive income.

The amendments introduced a lack of clarity on the presentation of items of OCI from associates and joint ventures accounted for using the equity method. Should they be presented:

- in aggregate as a single line item (although still making the distinction between OCI which will be reclassified to profit or loss and OCI which will not); or
- separately by nature (e.g. actuarial gains and losses from associates or joint ventures accounted for using the equity method)?

The Committee acknowledges that the new wording of IAS 1 is not clear on this issue, resulting in diversity in practice. Given that the IASB did not intend to change the previous requirements of IAS 1 (according to which OCI from associates and joint ventures accounted for using the equity method should be presented in a single line item rather than disaggregated by nature), the Committee decided to recommend a limited-scope amendment to IAS 1 as part of the Annual Improvements process. However, a distinction must still be made between OCI which can be reclassified and OCI which cannot. The Committee also feels that this approach is consistent with the separate presentation of the share of the profit or loss of associates and joint ventures accounted for using the equity method.

This clarification is particularly useful as the contribution of equity-accounted investments to total profit or loss is expected to increase significantly with the implementation of IFRS 11 and IAS 28R. However, preparers of financial statements would likely be even more interested in clarification on the level of presentation of the share of the profit or loss of associates and joint ventures accounted for using the equity method. This subject is not currently on the Committee's agenda as no request for clarification has been made by stakeholders.

➲ Amendments to IFRS 7 on offsetting of financial assets and liabilities: not mandatory for condensed interim financial statements!

The IFRS Interpretations Committee decided in July 2013 to propose a limited-scope amendment to IFRS 7 as part of the Annual Improvements process. The proposed amendment would bring the transition requirements for the amendments on offsetting of financial assets and liabilities published in December 2011 into line with the Board's actual intentions on the issue.

The current wording is unclear as to whether these amendments are mandatory for condensed interim financial statements as defined in IAS 34, as the latter standard was not amended following the publication of the amendments to IFRS 7.

After consultation with the IASB, it has emerged that the Board's objective was not to require full disclosure of information of offsetting of financial assets and financial liabilities in condensed interim financial statements, irrespective of whether the disclosures required updating from the previous closing of accounts.

If the proposed amendment goes through, it will necessarily be published after the closing of 2013 half-yearly financial statements. However, the Committee's decision is a step in the right direction and will help to reassure those preparers of financial statements who decided that they would not disclose this information at 30 June (unless it was required under the general principles of IAS 34).

➲ Variable payments for the separate acquisition of PPE and intangible assets: IASB decides to wait for Leases redeliberations

At the start of 2011, the IFRS Interpretations Committee began looking into an issue relating to the accounting treatment for variable payments for the acquisition of PPE and intangible assets (for example, payments linked to the buyer's future activity relating to the underlying assets acquired). The issue discussed by the Committee related to the following:

- firstly, the timing of recognition of the liability to make variable payments and its initial measurement; and
- secondly, the accounting treatment for subsequent changes in the liability to make variable payments.

After discussing this issue on various occasions, the Interpretations Committee was unable to reach a consensus on the first point when the payments are dependent on the purchaser's future activity. There is therefore no agreement currently on whether variable payments linked to the buyer's future activity should be excluded from the initial measurement of the liability until that activity is performed. As regards other payments[1], however, the Committee concluded that the fair value of those variable payments should be included in the initial measurement of the liability on the date of purchase of the asset.

Regarding the second point, the Committee felt that amendments should be made to IAS 16, IAS 38 and IFRS 9. For a financial liability is not a floating-rate instrument, subsequent changes in the liability to make variable payments would be recognised as an adjustment to the cost of the asset provided that they meet that definition of an asset.

At its July 2013 meeting, the IASB decided that it would be better to wait for the end of the redeliberations on the Leases project (which are expected to begin in the fourth quarter of 2013) and then address the issue in its entirety (i.e. initial recognition of variable payments and subsequent measurement). The issue of variable payments is addressed in the Leases project. Therefore, any decision on variable payments in the context of the separate acquisition of PPE and intangible assets may need to be consistent with the future Leases standard.

(1) Payments not dependent on the purchaser's future activity

➲ Recognition of other net asset changes for an equity-accounted entity: IFRS Interpretations Committee hands it back to the Board

In November 2012, the IASB published a limited-scope exposure draft proposing amendments to IAS 28, such that changes in the net assets of an investee accounted for using the equity method, which are not recognised in the investee's OCI or profit or loss for the period, shall be recognised directly in the investor's equity (see the November 2012 issue of *Beyond the GAAP*).

The exposure draft also proposed that these items would remain in equity until the investor discontinued the use of the equity method, at which point the items would be reclassified to profit or loss.

In July 2013, the committee analysed the 78 comment letters received in order to identify the next steps.

The Committee noted that a large number of commenters disagreed with the Board's proposals, but no majority solution emerged.

The Committee also observed that an increase or decrease in an investor's interest in an equity-accounted entity resulting from other net asset changes of the investee is not materially different from a direct acquisition or disposal. The Committee therefore decided to resubmit its previous proposal to the Board: namely, that reductions in an investor's percentage interest should be accounted for as partial disposals and recognised in profit or loss for the period, while increases should be accounted for as incremental purchases and recognised as net assets accounted for using the equity method and as goodwill.

➲ IFRS Interpretations Committee continues working on application of IAS 19

Over the past few months, the Committee has spent a lot of time investigating various difficulties with implementing IAS 19 *Employee Benefits*. At the July meeting, the following important decisions were made:

- The discount rate for post-employment benefits:
  The Committee proposed an amendment to the standard as part of the Annual Improvements, stipulating that the high quality corporate bond (HQCB) market used to determine the discount rate shall not be limited to the entity's national market, but shall include HQCBs from other countries, provided that they are issued in the currency in which the benefits are to be paid. Thus, the depth of the HQCB market shall be assessed at the currency level rather than the national level.
- The discount rate for post-employment benefits (cont.):
  The Committee has continued with its work on whether bonds with a rating lower than AA can be considered to be HQCBs.
  At the July meeting, the Committee confirmed that:
  - the concept of 'high quality' should be treated as an absolute concept rather than one which is relative to a given population;
  - entities should determine the discount rate for their post-employment benefits using a method that is consistent over time; there is no reason why this method or the method for identifying HQCBs should change over time.

  However, after debating the subject over the course of several meetings, the Committee decided that it could not provide any additional guidance or amend the standard. It has therefore not added the issue to its agenda.

➲ Recognition of sale or contribution of assets between an entity and its associate or joint venture

In December 2012, the IASB published a limited-scope exposure draft proposing amendments to IFRS 10 and IAS 28R (see the December 2012 issue of Beyond the GAAP). The exposure draft proposed that the gain or loss resulting from a sale or contribution of assets between an entity and its associate or joint venture should:

- be recognised in full if the assets which are contributed or sold constitute a business as defined in IFRS 3; or
- be eliminated to the extent of the investor's interest in the equity-accounted investments, if the assets which are contributed or sold do not constitute a business.

The Committee examined the 65 comment letters received, and decided to recommend that the Board should confirm the proposals. However, the comment letters also highlighted related issues which should be addressed in a new project.

European matters

➲ ESMA report on implementation of IFRS

On 22 July 2013, the European Securities and Markets Authority (ESMA) published a report on the monitoring of financial reporting for the 2012 period carried out by European enforcers, covering 20% of all listed entities.

In total, European enforcers reviewed around 2,250 annual or half-yearly accounts. They carried out full reviews of around 1,050 accounts (17% of listed entities in Europe) and partial reviews of 1,200 accounts (20% of listed entities in Europe).

Rather unsurprisingly, the enforcers focused particularly on impairment of goodwill.

In the report, ESMA points out that there is still room for improvement in the quality of financial reporting, particularly as regards the following issues:

- preparation of financial statements on a going concern basis;
- application of the classification criteria for assets held for sale;
- the discount rate for post-retirement benefits;
- classification and measurement of financial instruments;
- impairment of goodwill;
- the distinction between a change in an accounting policy and an accounting estimate; and
- risks and uncertainties.

The full ESMA report is available on ESMA's website via the following link:
http://www.esma.europa.eu/system/files/2013-1022_activity_report_on_ifrs_enforcement_in_europe_in_2012.pdf

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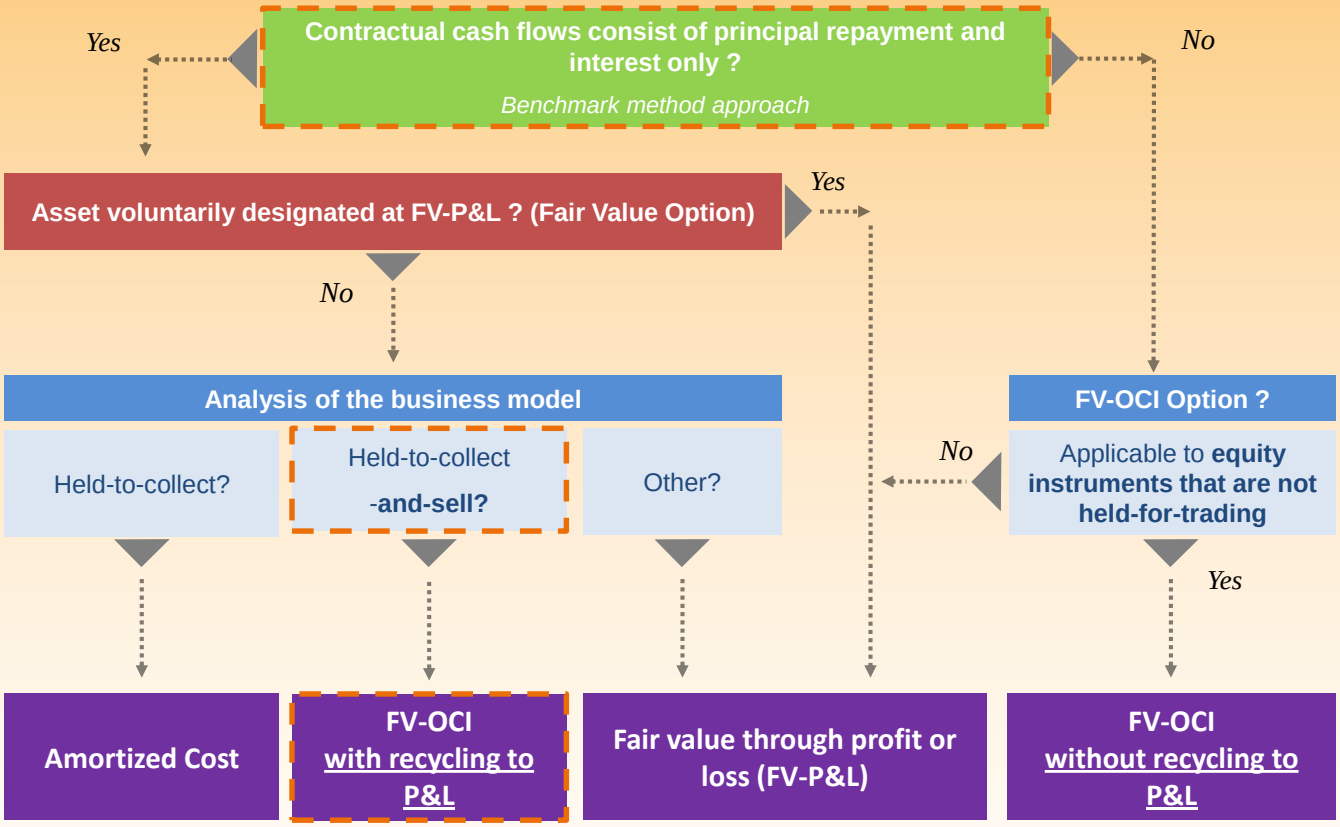
Re-opening IFRS 9 phase 1, *Classification and Measurement*: update on the project and overview of key comments received by the IASB

In the February 2013 issue of Beyond the GAAP, we presented the broad outlines of the proposed amendment to IFRS 9, published by the IASB on 28 November 2012 with a view to changing some of the requirements on the classification of financial assets under IFRS 9.

In this issue, we will update you on stakeholders' reactions to the proposed amendment.

➲ A reminder of the IFRS 9 classification model for financial assets, incorporating the proposals from the November 2012 exposure draft



* *The main changes introduced by the exposure draft compared with the current rules under IFRS 9 / Phase 1[1] are shown with an orange dotted line.*

[1] As a reminder, IFRS 9 cannot currently be applied in the European Union.

➲ Overview of comments received by the IASB

At the May and June meetings, the IASB reviewed the comments it had received, whether in the form of comment letters or in the context of other IASB outreach activities. The main criticisms of the exposure draft collected by the IASB staff were as follows:

1. Clarification of the SPPI criterion for contractual characteristics (the first box in the decision tree above)

Most commenters agreed on the need to clarify the SPPI (Solely Payments of Principal and Interest) criterion. However, commenters were not convinced that the proposed approach would resolve all the implementation problems which preparers are facing under the current IFRS 9. Some stakeholders recommended reintroducing the rules on bifurcation of embedded derivatives for financial assets instead of the SPPI criterion.

The exposure draft proposed introducing a benchmark test, which would involve comparing the contractual cash flows of the actual instrument with those of a similar benchmark instrument that meets the SPPI criterion in order to determine whether a financial asset with a modified economic relationship between the principal and the remuneration components can be recognised in any way other than at fair value through profit and loss (FV-P&L). Some commenters felt that introducing such a test would be likely to increase the complexity of the new standard on financial instruments. Some suggested replacing the test with the so-called 'double-double' test used under IAS 39[2] to assess whether or not embedded interest rate derivatives are 'closely related'. Other commenters criticised the lack of guidance on carrying out the test, fearing that this will result in divergent practices. Many stakeholders would like to extend the scope of the proposed benchmark test to a greater range of financial assets, such as assets whose contractual rate is based on an average interest rate, assets with prepayment options, and assets which are indexed to variables other than interest rates (e.g. equity indexes).

Some respondents suggested relaxing the 'Solely Payments of Principal and Interest' criterion by replacing the word 'solely' with 'substantially' or another similar term, which would mean that a larger number of financial assets would meet the criterion. Reservations were expressed about the threshold for meeting the SPPI criterion (according to the exposure draft, the difference between the cash flows of the actual instrument and those of the benchmark instrument must not be 'more than insignificant'). Some commenters suggested replacing the phrase 'more than insignificant' with the word 'significant', which would make it easier for financial assets to meet the SPPI criterion. Finally, there were some suggestions that the benchmark test should not be imposed on entities that do not wish or are not equipped to carry it out. In this case, if the test has not been carried out, financial assets with a modified economic relationship would be automatically recognised at fair value through profit or loss.

2. Introduction of the "fair value through OCI with recycling to profit or loss" classification

The various stakeholders were split between the following viewpoints:

- Some commenters were in agreement with the proposal set out in the exposure draft, namely that recognition at fair value through OCI (FV-OCI) should be obligatory* for simple debt instruments managed in accordance with a mixed business model whose objective is both to collect contractual cash flows and to sell the instruments. This would bring the IASB's classification model for financial assets more closely into line with the model proposed by the FASB.

* *with the exception of instruments that meet these criteria but are optionally designated as at fair value through profit or loss by the entity (under certain conditions)*

[2] See IAS 39.AG33a

- Other stakeholders supported the introduction of this category and the accounting principles that would apply to financial assets classified in the FV-OCI category, but proposed changes to the eligibility criteria for this category.
    - For example, some commenters suggested that the business model should be the sole criterion for classifying a financial asset in the FV-OCI category, whether or not the asset meets the SPPI criterion (which would open up the category to derivatives and shares).
    - Another proposed alternative was to treat the FV-OCI category as a residual business model. This category would thus be used for SPPI financial assets which are held neither for trading (FV-P&L) nor for collecting contractual cash flows (amortised cost).
    - Some commenters suggested that FV-OCI should be an optional category, rather than being mandatory and subject to certain criteria. In theory, this would help to resolve the problems faced by insurers relating to mismatches when accounting for assets and liabilities (which are not completely resolved by the proposals in the exposure draft).
- Finally, some respondents said they disagreed with the introduction of this third measurement category as it would increase complicity in the new classification model for financial assets under IFRS 9. They were also concerned that the new 'held to collect and sell' (HTC&S) business model which may result in FV-OCI measurement, would reduce the number of financial assets classified as 'held to collect' (HTC) and measured at amortised cost. Some commenters felt that the use of OCI should not be extended until the IASB has clarified its position on the subject in the context of its project to revise the Conceptual Framework.

As part of its outreach activities, the IASB also asked participants whether the legal form of financial assets (debt investments versus loans and receivables) should affect their measurement basis. Commenters were divided on the subject: some respondents felt that amortised cost is the most appropriate measurement for simple loans and receivables and FV-OCI for simple debt investments, irrespective of whether they are managed in accordance with the HTC business model or the HTC&S model. Other participants wanted to measure all simple debt instruments managed in accordance with the HTC or HTC&S business models at FV-OCI, whatever their legal form. A third group of respondents felt it would be useful to retain the distinction between the 'held to collect' and 'held to collect and sell' business models for loans and receivables, but felt that no distinction should be made in the case of debt investments, which should always be measured at FV-OCI (with the exception of investments that are held for trading, which would be measured at fair value through profit or loss).

3. The rules for the different business models and distinguishing between these models

Many respondents felt that the application guidance was not sufficiently clear and detailed to allow consistent identification of the business models across different entities. Moreover, some preparers of financial statements felt that the definition of sales that are compatible with the HTC business model was too restrictive. In addition to the examples already given in the exposure draft, they felt that the following types of sales should also be permitted: sales required by regulators, sales made to manage credit concentration risk, and sales due to an anticipated deterioration in credit quality (rather than solely permitting sales that occur when deterioration had already taken place).

Many commenters felt that the distinction between the 'held to collect and sell' (HTC&S) model and the 'held for trading' (HFT) model was quite vague. For example, the exposure draft states that under the HTC&S model, 'the entity's objective for managing the financial assets is to maximise the return'; this seems very close to the HFT business model. Some commenters also asked the IASB to clarify the meaning of the phrase 'assets managed on a fair value basis', which forms part of the definition of the HFT model.

4. Additional comments which go beyond the specific questions asked by the IASB

Several commenters criticised the fact that the current standard IFRS 9 does not permit preparers of financial statements to reclassify to profit or loss unrealized gains or losses for equity instruments which the preparer has elected to classify in the FV-OCI category (this ban applies even in the case of a sale). The exposure draft does not propose any amendments on this subject. However, the current prohibition is not consistent with the accounting treatment proposed for some debt instruments which would be classified in the FV-OCI category according to the proposals in the exposure draft; for these instruments, unrealized gains and losses are subsequently reclassified to profit or loss.

Other stakeholders took advantage of this opportunity to reiterate their disagreement with the rule, existing under IFRS 9, that preparers cannot reclassify to profit or loss the portion of changes in the fair value of financial liabilities optionally classified in FV-P&L which is attributable to changes in the issuer's credit risk.

In addition, some preparers of financial statements once again expressed their wish to reinstate the exemption (which existed under IAS 39 but not in IFRS 9) which would allow some investments in unquoted entities, and the derivatives indexed to such instruments, to be measured at cost.

Finally, the commenters encouraged the IASB to investigate the potential interactions between the various phases of the project to replace IAS 39 (e.g. between Phase 1 *Classification and Measurement* and Phase 3 *Hedge Accounting*) so as to avoid unexpected outcomes or inconsistencies in the final version of IFRS 9.

➲ Next stages

In the next stage of the *Classification and Measurement* phase, the IASB and the FASB will systematically review the comments on the various issues, starting this September. At the time of writing, the IASB expects that these redeliberations will last until the end of 2013.

IASB publishes conclusions of post-implementation review of IFRS 8 - *Operating Segments*

IFRS 8 - *Operating Segments* was published in 2006 to replace IAS 14 – *Segment Reporting* and to improve convergence with US standards. It is the first standard that was subject to a post-implementation review (PIR), and the IASB published the conclusions of its review in July 2013.

The requirement to review each standard or significant amendment to a standard two years after application was introduced by the IFRS Foundation in 2007 in order to address criticisms of the quality of its due process and to increase the credibility and acceptance of the IFRS.

The formal post-implementation review process supplements the other mechanisms the IASB has in place to review the implementation of IFRSs—interpretations, annual improvements and the three-yearly consultation on the IASB work plan.

By means of the post-implementation review, the IASB seeks to assess whether the standard is being applied as the Board intended when drawing it up, and whether it is achieving the intended objectives. It also allows the IASB to assess stakeholder satisfaction, any difficulties encountered in using the standard, and the costs involved in implementation.

The review will enable the IASB to decide whether to:

- keep the standard as it is, if no major issues are identified;
- revise the standard in order to address the issues identified by stakeholders;
- continue with application of the standard if the results are not conclusive.

Therefore, a post-implementation review will not necessarily result in amendments to the standard.

➲ The stages of the post-implementation review of IFRS 8:

The post-implementation review of IFRS 8 – *Operating Segments* followed the timeline below:

In the first phase, the IASB defined the scope of the review, based on preliminary outreach work with preparers of financial statements, users, auditors, regulators, standard-setters and the IFRS Advisory Council.

This initial outreach work enabled the IASB to identify the questions to be asked in the Request for Information (RFI), published on 19 July 2012.

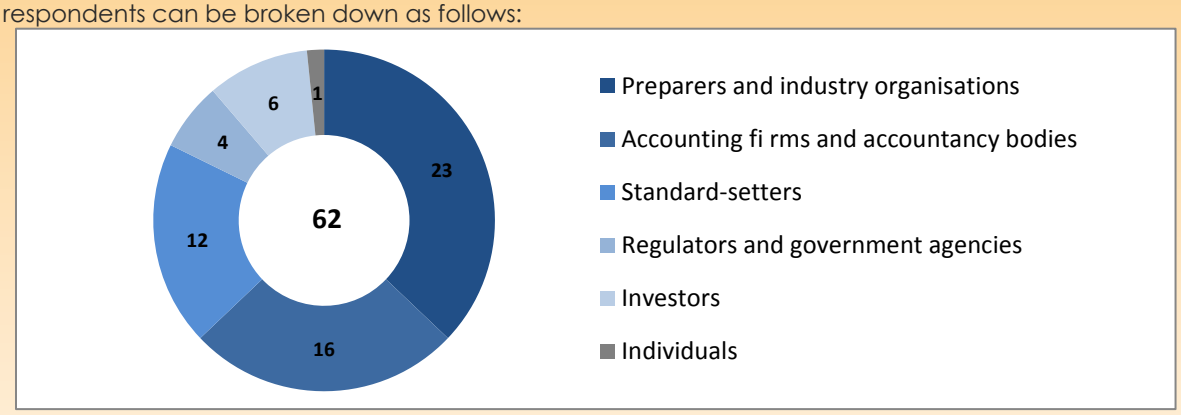
In the second phase, the IASB gathered observations and comments, through both the Request for Information and a review of the available literature and educational materials.

Concurrently with the Request for Information, the IASB carried out a number of international outreach activities in conjunction with national standard-setters, in order to gather interested parties opinions on the effects of implementing IFRS 8 – *Operating Segments*.

After analysing all the data, the IASB published a report[1] on its findings and planned actions on 18 July 2013.

➲ Respondents to the RFI

62 comment letters[2] were received in response to the Request for Information published by the IASB on 19 July 2012. The profile of respondents can be broken down as follows:



All geographical regions were represented in the responses:

Geographical area	Number	%
Europe	33	53%
Asia-Oceania	11	18%
South America	7	11%
North America	5	8%
Africa	4	6%
Global	2	3%
Total	**62**	**100%**

➲ Summary of key comments and next steps

IASB found that the information provided to the post-implementation review confirmed many of the IASB's expectations when it issued the Standard and improved the quality of financial reporting.

[1] http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-completes-Post-implementation-Review-of-IFRS-8-Operating-Segments-July-2013.aspx

[2] The comment letters can be accessed via the following link: http://www.ifrs.org/Current-Projects/IASB-Projects/PIR/IFRS-8/comment-letters/Pages/default.aspx)

The use of the management perspective for segmentation has linked external reporting more closely with internal reporting. This gives users of financial statements a better understanding of the entity's business model and also brings greater consistency to the financial statements as a whole. IFRS 8 has also achieved convergence with US GAAP, at a low cost.

Comments on the difficulties encountered tendered to differ by type of interested parties:

- Preparers generally think that the Standard works well;
- Auditors, accounting firms, standard setters and regulators generally support the Standard, but have made some suggestions to improve its application;
- Comments from investors were mixed.
  Some investors prefer to have information about how management views the business, as IFRS 8 requires. In addition, the fact that the information is audited adds value for investors.
  However, other investors feel that operating segments are sometimes reported in such a way as to obscure the visibility of the true management structure (often for reasons of commercial sensitivity) or to mask loss-making activities within individual segments.

However, the IASB do not think that the various comments made by respondents warrant a revision of the principles on which the Standard is based; there is no evidence of significant failings in the standard.

There are, however, specific areas where the standard could potentially be improved:

Requests for implementation guidance

➢ Definition of 'Chief Operating Decision Maker' (CODM):

The concept of a 'Chief Operating Decision Maker' is confusing and outdated. In addition, identification of the CODM is difficult in practice.

Respondents suggested that the IASB should:

- either provide more specific guidance on identifying the 'Chief Operating Decision Maker';
- or replace the concept of the 'CODM' with a more commonly-used term, such as 'key management personnel' (KMP) as defined in IAS 24 – *Related Party Disclosures* or 'governing board' as used in the Conceptual Framework.

However, the IASB points out that 'key management personnel' includes non-executive directors, which is at odds with the 'Chief Operating Decision Maker' function as used in the standard.

➢ Presentation of reconciliations of operating segment items to corresponding entity amounts:

Some preparers of financial statements are uncertain how the reconciliation should be presented and how reconciling amounts should be disclosed.

Some investors pointed out that the items included in the reconciliations are sometimes difficult to understand.

Some regulators and preparers of financial statements suggested that implementation guidance should be provided on this issue, with examples of such reconciliation.

In practice, it is not always easy to distinguish between segment data not presented separately, inter-segment eliminations and adjustments relating to specific (non-IFRS) segment measurements.

Requests for improved disclosures

➢ Subsequent changes to operating segments and loss of historic data:

Any change to the operating segments from one year to the next results in the loss for investors of valuable trend information for that entity.

Investors suggested that in the event of a reorganisation, comparative information for 3 to 5 years should be presented.

- Breakdown of sub-totals where 'non-GAAP' aggregates are used:

Many entities use different definitions of 'operating result' and 'operating cash flow' in their financial reporting, making it difficult to make comparisons between entities.

Specifically, some investors report that important line items needed to derive these sub-totals are often not separately reported. Investors therefore that the IASB require disclosure of some defined line items in such a way that investors can calculate their own 'operating result' or 'operating cash flow'.

Some investors also think that non-IFRS defined sub-totals should be labelled 'adjusted'.

- Aggregation of operating segments:

Many investors think that operating segments are generally aggregated inappropriately, reducing the value of the information presented.

In addition, preparers of financial statements pointed out that the criteria given in the standard for aggregating segments are difficult to apply in practice.

In order to make things clearer and ensure that operating segments are only aggregated when necessary, respondents suggested that the IASB should:

- provide guidance on the nature of 'similar economic characteristics', as some regulators have done;
- reconsider the use of quantitative thresholds.

- Relationship between reconciling amounts and individual operating segments:

Some investors do not understand how reconciling amounts relate to an individual segment.

Many investors would like reconciliations to be prepared segment by segment. This would enable them to identify any discrepancy between the performance as assessed by the management and the performance reported under IFRS, due to the implementation of recent or future standards (consolidation, joint arrangements, revenue recognition, leases).

➲ What changes should we expect?

The concerns mentioned above will be investigated further by the IASB staff, who will then present their comments and proposals at an upcoming board meeting by the end of 2013. Their main task will be to investigate whether some of these points could lead to a targeted amendment to IFRS 8 and whether other issues should be considered in the context of a larger project as part of the three-yearly consultation on the IASB's work plan.

Close consultation with the FASB would be necessary if the IASB decided to start working on a future amendment to the standard, as it was drawn up with a view to convergence with US GAAP.

Finally, the IASB will make use of the IFRS 8 review to refine its methodology for standards review: in the short term, it will help with the next upcoming post-implementation review, IFRS 3 – *Business Combinations*.

Frequently asked questions

IFRS

- Accounting treatment of a CICE competitiveness tax credit
- Presentation of disclosures under IFRS 12
- Accounting treatment of an up-front fee in the context of a licensing agreement which also includes variable remuneration over the duration of the contract: should revenue be recognised immediately or spread over the duration of the contract?
- Accounting treatment of the debt component of a bond which is redeemable for new or existing shares, taking account of variations in the coupon in line with dividends paid

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

IASB	Committee	EFRAG
12 - 20 September 2013	10 - 11 September 2013	4 - 6 September 2013
24 - 31 October 2013	12 - 13 November 2013	9 - 11 October 2013
14 - 22 November 2013		6 - 8 November 2013

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