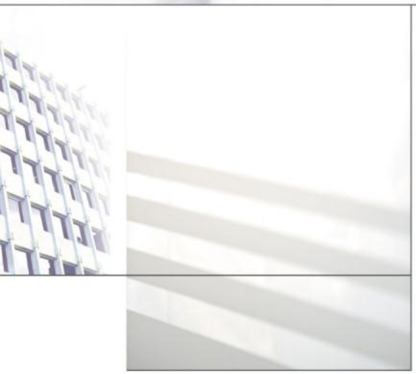


EFRAG

European Financial Reporting Advisory Group

European Outreach Event

Brussels

11 October 2012

Introduction and outline

EFRAG Outreach events

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

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

European outreach event, Brussels October 11

EFRAG and the Trustees of the IFRS Foundation held a joint conference to discuss an *EU perspective on the move towards global accounting standards*. On the same day EFRAG held a European Outreach Event to gather evidence from constituents, including some of those attending the conference, as part of its evidence gathering activities for the IFRS 8 post-implementation review and to feedback on the EFRAG/ANC/FRC discussion paper *Towards a Discussion Framework for the Notes*.

The outreach event was chaired by Françoise Flores, EFRAG Chairman. Phillipe Danjou, IASB Board Member, and Alan Teixeira, IASB Technical Director participated.

Summary of contents

Feedback statement

Purpose and use of this feedback statement

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

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

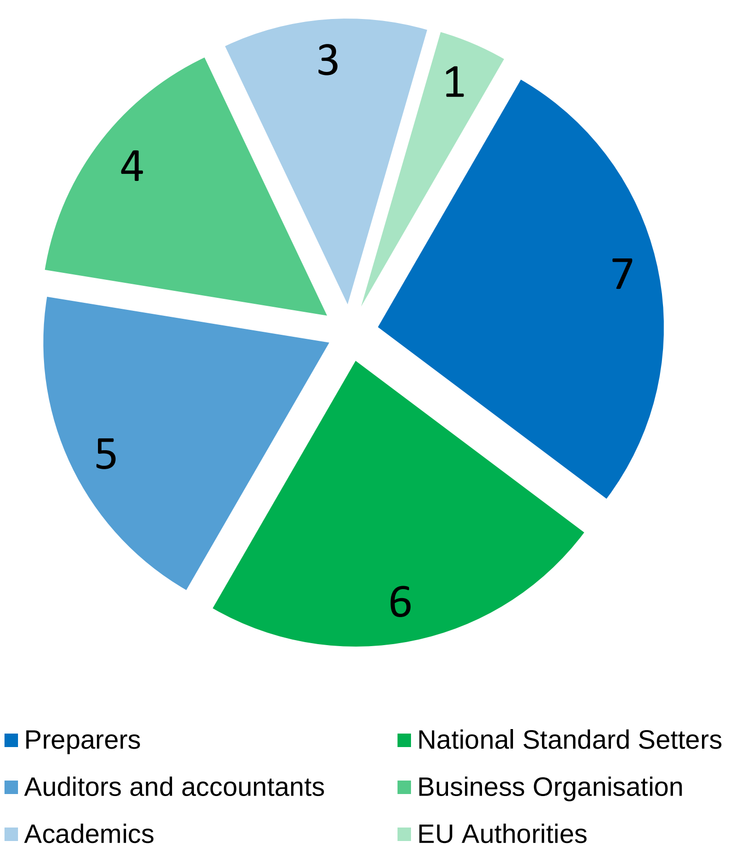
Feedback received from constituents on the EFRAG/ANC/FRC Discussion Paper *Towards a Disclosure Framework for the Notes* will be considered by EFRAG TEG, the French Standard Setter ANC and the UK Standard Setter FRC when deciding future steps for the project.

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

Participating constituents

Participating constituents were from across Europe and a variety of backgrounds, as set out in the table opposite. Experience with IFRS is extensive and most participants were currently involved at a senior level.

Number by background



IFRS 8 Post-Implementation Review

IFRS 8 post-implementation review

Information to be considered together with this document

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

Background to the post-implementation review

EFRAG Chairman Françoise Flores introduced Board Member of the IASB, Phillipe Danjou, who briefly described the post-implementation review process and spoke of some implementation issues requiring further investigation.

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

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

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

Areas being investigated

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

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

Changes from IAS 14 to IFRS 8

Management basis of identifying operating segments

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

Management determined measurement basis

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

Internally reported line items

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

Disclosure requirements

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

Management basis for identifying operating segments

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

Area	Constituent	Comment
Identifying the Chief Operating Decision Maker	Preparer	Enforcers view identifying the CODM as key to implementation of the standard. The CODM is potentially different in each organisation, and depends on the level at which resources are allocated. When identifying the CODM, the focus should be on understanding whether resources are allocated at high or low level in the organisation. The requirement to view within the context of allocating resources is unclear – is it overall capital investment, or in the context of normal operations?
	Business Organisation	Members' experience showed they are few problems identifying the CODM other than in the context of matrix operations (e.g. business versus region). Some members had not only looked within the company, but also considered how they communicated with external analysts.

Management determined measurement basis

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

Area	Constituent	Comment
Are numbers as thoroughly audited as IFRS measurement basis numbers?	Auditor / Accountant	The numbers are as thoroughly audited as any other numbers.
	Auditor / Accountant	It depends on the organisation, but in terms of management determined measurement basis, if that is the information reviewed by the CODM, what is there to audit?
	Business Organisation	Members did not experience difficulties in establishing the numbers.
	Preparer	A measurement basis close to IFRS is used in order to ensure that the data/numbers are consistent throughout the process, and thus avoid causing problems.

Management determined measurement basis

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

Area	Constituent	Comment
Making users aware of the measurement basis	Accounting Organisation	It depends on the organisation, but the details of the measurement basis are not always readily available in smaller companies.
	Business Organisation	Companies are happy to discuss the basis with analysts, but admitted that reconciliations were not always completely understandable.
	Preparer	Major differences in measurement basis: • ‘Extraordinary’ items that do not relate to recurring cash flows, or are linked to accounting requirements that are not looked at for internal purposes (e.g. amortisation). • When pricing is not at arm’s length, they believe that IFRS 8 is better than IAS 14, as IAS 14 required ‘forcing’ numbers that were not used elsewhere in the financial statements. • When the numbers reported are based on cash flows rather than on accrual accounting.
	Preparer	There were two types of reconciling items – items such as hedging where they are not allowed under current IFRS (e.g. CDS versus bond), but are included in bank’s internal books; and items for which debits are shown in the income statement, but for which credits are booked directly to equity.

Internally reported line items

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

Area	Constituent	Comment
Are very detailed reporting packages summarised for IFRS 8 purposes?	Preparer	One key area where the available detailed information had not been included in IFRS 8 disclosures was the central treasury desks in banks, where the internal lending margin was established (and thus key for segmental profit).
	Preparer	Management information systems allow multiple types of reports, so it can be difficult to identify what is actually used by the CODM. It also depends on the personality of the CODM – those who challenge those who report to them may be more inclined to drill down into the information. At the level of the CODM, non-financial KPIs were as important as financial KPIs. The question was raised whether operating segments were disaggregated financial statements or something else.

Entity-wide disclosures

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

Area	Constituent	Comment
Information about geographic areas	Auditor / accountant	Geographic disclosures are very difficult within financial services, and especially given the single market in the EU. For example, if an entity is servicing a customer from Member State A, via a branch in Member State B, but the legal entity is in Member State C: which country is the revenue from?
	Preparer	There needed to be additional clarification on what the requirements were, especially on location of revenue. The notion of ‘country of domicile’ was outdated.
	Preparer	In financial services to identify where the revenue was from. At the moment what is reported is the location where revenue is recorded.
	Preparer	For a globally-managed business, additional data-collection processes had to be put in place to identify the country of revenue.
Information about products and services	Preparer	IFRS 8 was generally good, but difficulties appeared when categorising products and services that do not necessarily fit in with how the business is managed. IFRS 8 therefore required parallel reporting structures.
	Business organisation	It would be easier if everything were on the same measurement basis rather than having different numbers for entity-wide disclosures and operating segments.

Transition experiences

Summary of evidence received from constituents on their experiences of transition from IAS 14 to IFRS 8

Area	Constituent	Comment
Interaction with users	Preparer	Companies adapt their segment reporting as new challenges emerge: for example telecom companies changing to offer mobile solutions. However, there is always a tension with users, especially during the transition period.
Competitive impact	Preparer	Companies had concerns about disclosing sensitive items in IFRS 8 when their competitors were not, so they would not include this information in the notes to the financial statements, but would give the information to selected analysts.

Towards a Disclosure Framework for the Notes

Towards a Disclosure Framework for the Notes

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

Background

The objectives of Discussion Paper are to:

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

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

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

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

Information to be considered together with this document

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

Key principles in the discussion paper

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

(a) Purpose and content of the notes;

(b) Setting disclosure requirements;

(c) Applying the requirements; and

(d) Communicating information

Content of the discussion paper

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

Open debate

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

General Feedback

Summary of general feedback received from constituents on the Discussion Paper

Comment
The general comments received were that the Discussion Paper was considered useful in raising the debate, providing a consistent approach to set or apply requirements, and offering useful discussion on the application of materiality. This could be attributed to the fact that the Discussion Paper was designed not to stay at the principle level but also provides different approaches or alternatives with sufficient criteria as guidance.
Many respondents specifically noted that it is desirable to achieve an international disclosure framework and have it based on robust key principles. They underlined that the disclosure framework should be seen as a contributor to improved communication.
Some participants noted that the paper is a first step. Its scope is limited to the notes to the financial statements. A broader perspective on disclosure in financial reporting should be considered notably by adding the management commentary.

The discussion paper's scope and key principles

Summary of feedback received from constituents on the Discussion Paper's scope and key principles

Constituent	Comment
Auditor/ accountant	The scope decision helps as a first step to better define the role of the notes in the financial statements compared to other parts of the financial reporting. The case for de-cluttering was very strong. Yet this should not prevent further consideration of the full picture of financial reporting and its limits.
Other participants	Others shared their perspective that having a broader view to the overall picture helps to move forward and enhance the disclosures at large.
Academic	The scope and definition could have large impacts on the notes and their auditability. Preparers were often providing lengthy footnotes to protect themselves from possible litigation. There are implications to be analysed in relation to a transfer of information to management commentary or the section on corporate governance, including the consequences not having all information audited.
Majority of participants	Views were split about the scope of the Discussion Paper. Participants welcomed the Key Principles on purpose and content of the notes, setting disclosure requirements, applying the requirements and communicating information.
Debate	Participants debated about placement criteria and where the boundary between the notes and the management commentary should be, with different views offered. In this discussion also the users' needs were raised. The question was also mentioned how the debate on disclosure framework can be linked to integrated reporting debate.

The framework

Summary of feedback received from constituents on the framework proposed in the Discussion Paper

Constituent	Comment
Majority of participants	Overall constituents reported that the model was rather clear and helpful and believed that sufficient guidance was given for application. Some appreciated the internal consistency of the various components of the model.
Academic	The entity's business model could be used to link with valuation of the entity and forecast of cash flows.
Business organisation	It is important to first identify who are the main users to which entities communicate in the financial statements.
Debate	Considering the needs of different stakeholders and users, the purpose of the notes could change. The question of users' needs has to be addressed to identify what is the best general information and most appropriate level of granularity to provide.

Setting the requirements

Summary of feedback received from constituents on setting the requirements

Constituent	Comment
IASB	Would the information on accounting policy also refer to accounting methods? This was confirmed.
Preparer	A banking preparer agreed that he could not always find the information on an accounting treatment he was looking for. He suggested that this information should be provided when new standards are implemented, there is a change in transitional rules applied or other policy elections.
Academic	An academic asked if information on items such as internally generated or other similar intangibles would be disclosed. It was confirmed that the definition of the purpose of the notes would include information on these items.

Different approaches and differential disclosure regimes

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

Constituent	Comment
Others	The Discussion Paper presents different alternatives in setting disclosure requirements. Some participants noted that there should be a more elaborate discussion on the tension between entity-specific information (that enhances relevance) and general requirements (that promote comparability).
Academic	The business model could be useful to identify which entities should be compared and therefore be required to produce similar disclosures.
Majority of participants	In relation to the possibility to introduce different requirements based on some differentiating criterion (such as public accountability, the size of the entity, the complexity of the business model, the type of industry) participants were split on how to make this notion operational.
EFRAG Chairman	The choice of the disclosure regime and any type of selectivity should be based on the analysis of the users' needs in relation to specific class of reporting entity.
Debate	Overall participants did not express a clear support for one of the alternatives presented in the Discussion Paper.

Applying the requirements

Summary of feedback received from constituents on applying the requirements

Constituent	Comment
Different participants	Participants did not reject the possible prohibition against providing immaterial information. There were different views on the possibility to provide comprehensive guidance on all facts and circumstances that may impact materiality. However there was support on the effort to develop guidance.
Academic	Extended disclosure for compliance is a way to protect management from litigation.
Academic	Materiality needs to be ‘anchored’ with additional guidance to make the concept less vague.
Debate	Participants agreed that the solution to applying materiality was not easy to find, but in general were supportive of the idea to provide guidance.

Communicating information

Summary of feedback received from constituents on communicating information – page 1

Constituent	Comment
Auditor/accountant	Regarding the enhancement of communication, it was suggested that there could be a disclosure framework and a second framework for communication.
Preparer	There is an opportunity to develop the benefits of using XBRL for the notes in order to increase comparability. Having well defined tags could help a lot providing high quality information and avoid time wasted to look for information within thick reports. He also advocated a separate approach for non recurring items.
Academic	The Discussion Paper should have included a more detailed analysis on how XBRL and technology will impact the preparation and use of disclosures.
Auditor/accountant	Technology alone cannot be the solution and warned that the principles like ‘materiality’ were key; qualitative aspects are difficult to work with in databases. In addition to a disclosure framework there may be a need for a communication framework . He felt one cannot communicate only by XBRL.
Debate	Some participants noted that not only the amount of disclosure is an issue that has caused much criticism during the current financial crisis, but also irrelevant, excessive, or immaterial disclosures make it difficult to assess an entity’s performance and its related cost of risk (this could go beyond communication improvement).

Communicating information

Summary of feedback received from constituents on communicating information – page 2

Constituent	Comment
Business Organisation	The Enhanced Disclosure Task Force formed by the Financial Stability Board did not base their work on IFRS like IFRS 7 as they were not fully convinced it would be useful to rethink how to provide users with relevant information and focus on the entity's risk adjusted performance. To fight against current distrust in the financial statements at large, how to communicate about risks to users should be pivotal. The use of flexible reports could be recommended but ultimately it will be market judging the merits or not. Users have high demands and the question is how to answer them. He would not like the market power to negate prudential approach to develop internal modeling.
Preparer	The example of the Greek crisis proves the importance of communicating the right level of information; an insurance company could be perceived as having a large exposure to this specific sovereign risk while actually it is the policy holders who bear the risk via participating contracts. Clear guidance is needed to avoid producing misleading information.