IFRS 8: Disclosure of Revenue and Expenses for Reportable Segments

Extract, IFRS® Accounting Standards Discussion Group Report on the Meeting – September 12, 2024

Background

In November 2023, the IFRS Interpretations Committee discussed a submission about how an entity applies the requirements in paragraph 23 of IFRS 8 *Operating Segments* to disclose specified amounts related to segment profit or loss for each reportable segment. Following this discussion, the Committee published a tentative agenda decision. The Committee discussed the feedback on this tentative agenda decision at its June 2024 meeting, and published a final agenda decision in July 2024.

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

(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 chief operating decision maker (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.

The Group's discussion focused on the second part of the submission (i.e., the meaning of "material items of income and expense" under paragraph 23(f) of IFRS 8).

<u>Background on the agenda decision addressing "material items of income and expense" when applying paragraph 23(f) of IFRS 8</u>

The Committee observed that paragraph 23 of IFRS 8 requires an entity to disclose specified amounts for each reportable segment when those amounts are:

- included in the measure of segment profit or loss reviewed by the CODM, even if they are not separately provided to or reviewed by the CODM, or
- regularly provided to the CODM, even if they are not included in the measure of segment profit or loss.

In summary, the Committee observed that, in applying paragraph 23(f) of IFRS 8 by disclosing, for each reportable segment, material items of income and expense disclosed in accordance with paragraph 97 of IAS 1, an entity:

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

(b) applies the requirements in paragraphs 30-31 of IAS 1 in considering how to aggregate information in its financial statements;

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

(d) considers circumstances including, but not limited to, those in paragraph 98 of IAS 1.

The Committee further observed that paragraph 23(f) of IFRS 8 does not require an entity to disclose by reportable segment each item of income and expense presented in its statement of profit or loss or disclosed in the notes. This observation was absent in the tentative agenda decision and was added to the final agenda decision.

Summary of feedback on the tentative agenda decision

As noted above, in November 2023, the Committee published its tentative agenda decision. The IASB Staff Paper 2 from the June 2024 Committee meeting summarizes the feedback on the tentative agenda decision into four main areas:

(1) Evidence of diversity in application

Certain respondents indicated that there was no significant diversity in the application of these requirements in their jurisdiction, and thus disagreed with the need for the Committee to address the question. The staff commented that through their outreach and analysis of comment letters, there was sufficient evidence of diversity in practice.

(2) Interaction between paragraphs 97 and 98 of IAS 1

Paragraph 97 of IAS 1 requires that "When items of income and expense are material, an entity shall disclose their nature and amount separately."
Paragraph 98 notes that:

> 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.

Many respondents thought that paragraph 97 of IAS 1 should be applied in the context of paragraph 98 of IAS 1, but noted that the tentative agenda decision failed to explain this interaction. These respondents said that paragraph 98 of IAS 1 provides examples of when an item is a "material item" in paragraph 97 of IAS 1. Some of these respondents indicated that, in the context of those examples in paragraph 98 of IAS 1, the reference to "material items" in paragraph 23(f) of IFRS 8 should be read as "unusual items" or items that are not normal in an entity's day-to-day operations.

The Committee staff indicated that the circumstances in paragraph 98 of IAS 1 are examples and not an exhaustive list that overrides or limits the requirement in paragraph 97 of IAS 1. The use of the word "include" in paragraph 98 of IAS 1 does not mean "are limited to." Moreover, some of those circumstances are expected to occur at least once for all or most entities, and so would not be "unusual." For example, many entities write down inventories, dispose of items of property, plant, and equipment or dispose of investments.

(3) Segment-level statement of profit or loss

Many respondents thought that the tentative agenda decision could be interpreted as requiring an entity to disclose a full statement of profit or loss for *each* reportable segment. Staff noted that this would not have been intended by the IASB because such a "wide interpretation" of paragraph 23(f) of IFRS 8 would make disclosure of the other specified amounts in paragraph 23 redundant. Consequently, an observation was added to the final agenda decision that paragraph 23(f) of IFRS 8 does not require an entity to disaggregate by reportable segment each item of income and expense presented in the entity's statement of profit or loss or disclosed in the notes.

(4) Suggestions for standard setting

Many respondents suggested referring the submitter's questions about paragraph 23(f) of IFRS 8 to the IASB for further consideration given the ambiguity in the requirement. Staff noted that the need for standard setting seemed to stem from the above comments on the tentative agenda decision, notably about having to provide a full statement of profit or loss for each reportable segment. Therefore, the Committee concluded that addressing those comments removed the need for standard setting.

Group members discussed two fact patterns illustrating possible application of the final agenda decision, along with a general question on the expected impacts of the final agenda decision.

Fact Pattern 1

- An entity presents its income statement by function.
- Applying paragraph 104 of IAS 1, it discloses expenses by nature in the notes. As part of this disclosure, it provides a breakdown of costs which include, among others, transportation costs, advertising and marketing expenses, and maintenance expenditures.
- All of these expenses relate to normal operations and have not arisen as a result of a specific circumstance or event.
- All of these expenses are also included in the measure of segment profit/loss reported to the CODM, but are not separately disclosed in the management package reviewed by the CODM.
- These expenses are individually quantitatively material to the overall financial statements.

Issue 1: Are the transportation costs, advertising and marketing expenses, and maintenance expenditures "material items of income and expense" applying paragraph 23(f) of IFRS 8?

Analysis

View 1A – No, since the expenses are being provided in the context of paragraph 104 of IAS 1 rather than paragraph 97 of IAS 1

Proponents of this view think these expenses would not be considered items of income and expense in the scope of paragraph 97 of IAS 1 as they are provided in the context of paragraph 104 of IAS 1. As a result, the entity would not be required to disclose them per reportable segment based on the requirements of paragraph 23(f) of IFRS 8.

View 1B – No, the expenses are normal operating expenses of the entity and do not result from qualitatively material/significant circumstances or events

Similar to View 1A, proponents of this view think these expenses are normal operating expenses and would therefore not be considered items of income and expense in the scope of paragraph 97 of IAS 1, and the entity would not be required to disclose them per reportable segment under paragraph 23(f) of IFRS 8.

View 1C – Yes, since they are considered material in the context of paragraph 97 of IAS 1, regardless of other specific disclosure requirements

Proponents of this view note that management applies paragraph 97 of IAS 1 and considers that these expenses are material in the context of the financial statements. This includes assessing both qualitative and quantitative factors, representing the nature or magnitude of information associated with these expenses. Proponents of this view think that paragraph 97 of IAS 1 is not a top-up requirement capturing items beyond other disclosure requirements (such as paragraph 104 of IAS 1 in this case). Rather, paragraph 97 of IAS 1 is assessed independently of those other disclosure requirements.

The Group's Discussion

Group members thought that determining whether these expenses are "material items of income and expense" applying paragraph 23(f) of IFRS 8 would be a matter of judgment based on the entity's facts and circumstances. One view (View 1A, 1B, or 1C) would not necessarily apply in all cases. One Group member commented that they disagreed with View 1B because the IFRS Interpretations Committee discussion clarified that paragraph 23(f) of IFRS 8 would not be limited to "unusual items" on the basis that paragraph 97 of IAS 1 refers to "material" items of income and expense and not "unusual" items, and paragraph 98 of IAS 1 is a non-exhaustive list of examples that do not override the requirements of paragraph 97. A few Group members disagreed with View 1A because they thought an expense could fall into the scope of both paragraphs 104 and 97 of IAS 1. They also disagreed with View 1C because they thought disclosing the expenses by reportable segment may not necessarily be material in all cases. For example, it is possible that only a subset of the expenses in question are material (e.g., transportation costs could be material even if advertising and marketing expenses and maintenance expenditures are not material). Group members also highlighted that even if an expense is material in the context of the financial statements taken as a whole, it may not be material for every reportable segment.

Group members discussed that an entity would apply judgment in determining what is material based on whether the information could reasonably be expected to influence the decisions of primary users of the financial statements. This could vary depending on the nature of the entity's business and its reportable segments.

Fact Pattern 2

- An entity has announced a major corporate restructuring during the year, the costs of which are expected to be significant.
- The entity incurred some costs during the current year and has recognized a provision for costs expected to be incurred in the future.
- The total of these costs is material to the entity.

Issue 2: Are the major corporate restructuring costs "material items of income and expense" applying paragraph 23(f) of IFRS 8?

Analysis

View 2A – Yes, paragraph 97 of IAS 1 captures these items when not otherwise required by another IFRS

Proponents of this view think these costs are "material items of expense" that might not otherwise require disclosure. Only the movement in the provision would be captured by other IFRS disclosure requirements (paragraph 84 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

The total restructuring costs are therefore in the scope of paragraph 97 of IAS 1. As a result, the entity would disclose them per reportable segment in accordance with paragraph 23(f) of IFRS 8.

View 2B – Yes, since this is a circumstance covered in paragraph 98 of IAS 1

Proponents of this view think these costs are in the scope of paragraph 97 of IAS 1 since they are an example of a circumstance giving rise to separate disclosure under paragraph 98(b) of IAS 1. As a result, the entity would disclose them per reportable segment in accordance with paragraph 23(f) of IFRS 8.

View 2C – It depends on the materiality of the information

Proponents of this view note that while restructurings are listed in paragraph 98 of IAS 1 as an example of a circumstance that may warrant disclosure under paragraph 97 of IAS 1, the application of paragraph 97 of IAS 1 remains based on the materiality of the information. Consistent with the agenda decision, the entity would evaluate the nature or magnitude of information—in other words, qualitative or quantitative factors—or both for this specific restructuring. For example, while quantitatively material, the entity may have undertaken recurring restructurings over the years if it operates in a very competitive or challenging industry.

Moreover, application of paragraph 97 of IAS 1 may determine that the restructuring expenses are not material to all reportable segments of the entity, so disclosure may not be required for all reportable segments.

The Group's Discussion

Similar to Issue 1, Group members thought that determining whether major corporate restructuring costs are "material items of income and expense" applying paragraph 23(f) of IFRS 8 would be a matter of judgment based on the entity's facts and circumstances. Accordingly, Group members generally agreed with View 2C. Even if the costs are related to a circumstance covered in paragraph 98 of IAS 1 and are material to the entity on a total basis, that does not necessarily mean that disclosing them for each reportable segment would be material to the users of the financial statements. As per the agenda decision, an entity applies judgment and considers the core principle of IFRS 8 in determining information to disclose for each reportable segment.

Issue 3: What impact do you think the agenda decision will have on the application of paragraph 23(f) of IFRS 8?

Analysis

View 3A – There will be no impact

Proponents of this view think that there is sufficient room for judgment in the agenda decision wording so that entities that previously complied with IFRS 8 can continue to report as before. Specifically:

- Proponents of this view interpret the linking of paragraphs 97 and 98 of IAS 1 in the agenda decision to help support a view that there will be no change. Proponents of this view think paragraph 98 of IAS 1 is a non-exhaustive list of "unusual" items in the scope of paragraph 97 of IAS 1. That is, the agenda decision is simply acknowledging that there could be other types of material "unusual" items, rather than stating that day-to-day items should be included.

- The agenda decision explicitly states that paragraph 23(f) of IFRS 8 does not require an entity to disclose by reportable segment each item of income and expense presented in its statement of profit or loss or disclosed in the notes. This supports the view that entities are not required to provide a full statement of profit or loss for each reportable segment. Further, it is clear that some items need to be considered for disclosure but not each and every item.

View 3B – There will be some impact

Proponents of this view think it is clear that entities are not required to provide a full statement of profit or loss for each reportable segment, and that each item of income or expense presented or disclosed does not need to be shown by segment. However, entities may need to disclose more than just the material and "unusual" items listed in paragraph 98 of IAS 1 because the agenda decision states that an entity considers circumstances including, but not limited to, those listed in that paragraph. This could include some day-to-day items that are otherwise disclosed or included in totals. While identifying how many items and which to include would be subject to judgment, day-to-day items cannot be overlooked.

Proponents of this view also think the agenda decision does not limit the required disclosures to only those items considered by the CODM (sometimes referred to as a management approach). This is because paragraph 23 of IFRS 8 requires disclosure of specified items when they are included in the 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. This means that the specified items are not required to be "separately reviewed" by the CODM for those amounts to be disclosed. For example, an entity may now be required to disclose employee benefits by reportable segment if the total is disclosed in the notes and is considered material in the context of the financial statements when applying paragraph 97 of IAS 1. Previously, the entity may have asserted that disclosing employee benefits by reportable segment was not captured by paragraph 23(f) of IFRS 8.

View 3C – There will be significant impacts

Proponents of this view think the agenda decision will require entities to report on a much more granular level going forward. While the agenda decision indicates that each item presented or disclosed would not need to be shown by segment (i.e., a full statement of profit or loss and notes for each reportable segment is not required), it suggests that disclosures up to but excluding that level of granularity may be required and need to be considered by entities.

The Group's Discussion

Group members discussed that the impact would vary depending on how an entity has been interpreting and applying the requirements to date. For example, an entity that previously interpreted paragraph 23(f) of IFRS 8 to only require disclosure of the "unusual" items listed in paragraph 98 of IAS 1 may have more to consider than an entity that had interpreted it more broadly. Even if there is no impact, the agenda decision will likely bring more attention to segment disclosures. As such, entities may want to revisit their segment disclosures and related materiality judgments and documentation thereof in light of the clarifications in the agenda decision.

Overall, the Group’s discussion raised awareness of the agenda decision, “Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8)” and its potential impacts. No further actions were recommended to the AcSB.