

Explanatory Statement

Accounting Standard AASB 8 *Operating Segments*

February 2007



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Adoption of Australian equivalents to IFRSs

The Australian Accounting Standards Board (AASB) is implementing the directive of the Financial Reporting Council (FRC) to adopt the Standards of the International Accounting Standards Board (IASB), for application to reporting periods beginning on or after 1 January 2005.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards (IAS); and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. The AASB has departed from this objective in respect of this Standard because the requirements are specific to for-profit reporting entities that have issued, or are in the process of issuing, debt or equity securities on a public market. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB uses the IASB Standards as the “foundation” Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

On 15 July 2004, the Board made the set of Australian Standards equivalent to IFRSs, together with several associated Australian Standards, effective for annual reporting periods beginning on or after 1 January 2005.

Reasons for Issuing AASB 8

The IASB has issued IFRS 8 *Operating Segments* which supersedes IAS 14 *Segment Reporting* for annual reporting periods beginning on or after 1 January 2009. AASB 114 *Segment Reporting*, the Australian equivalent to IAS 14, was made by the AASB in July 2005. If the AASB does not issue AASB 8 *Operating Segments*, the Australian equivalent to IFRS 8, Australian for-profit reporting entities will not be able to claim compliance with the full set of Standards issued by the IASB.

Main Features of this Standard

Scope and Application

This Standard applies to for-profit entities whose debt or equity instruments are traded in a public market or whose debt or equity instruments are traded in a public market or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. AASB 114 applied to a broader range of for-profit entities, namely those that are for-profit reporting entities.

The Standard does not apply to not-for-profit entities in common with AASB 114.

The AASB decided that AASB 8 should have the same scope and application as IFRS 8. In making its decision on the scope of IFRS 8 the IASB foreshadows in its Basis for Conclusions on IFRS 8 (paragraphs BC 18-20) its intention to propose extending the scope of IFRS 8 to include entities that hold assets in a fiduciary capacity for a broad group of outsiders at the same time as it issues an exposure draft of its proposed IFRS for SMEs.

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2009 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.

Main Requirements

This Standard:

- (a) specifies how an entity should report information about its operating segments in annual financial reports and, as a consequential amendment to AASB 134 *Interim Financial Reporting*, requires an

entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers;

- (b) requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments;
- (c) requires an entity to report a measure of operating segment profit or loss and of segment assets. It also requires an entity to report a measure of segment liabilities and particular income and expense items if such measures are regularly provided to the chief operating decision maker. It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements;
- (d) requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions. However, the Standard does not require an entity to report information that is not prepared for internal use if the necessary information is not available and the cost to develop it would be excessive; and
- (e) requires an entity to give descriptive information about the way the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.

Consequential amendments

Consequential amendments to other Australian equivalents to International Financial Reporting Standards are included in AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* (February 2007).

Transitional Provisions

Segment information for prior years that is reported as comparative information for the initial year of application is to be restated to conform to the requirements of this Standard, unless the necessary information is not available and the cost to develop it would be excessive.

Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 145 *Operating Segments*, the Australian equivalent to the IASB ED 8 *Operating Segments*, in January 2006. ED 145 proposed the adoption of the IASB proposals in Australia and sought comment on the appropriateness of extending the proposed approach to apply to not-for-profit reporting entities in the private sector and the public sector. Ten submissions were received in respect of the proposals in the ED and although there was substantial support for adopting an Australian equivalent to IFRS 8 in respect of for-profit reporting entities there was little support for applying the basis of the approach to not-for-profit entities in both the private and public sectors. There was limited support for requiring those entities presently included in the scope of AASB 114 to comply with the new standard.

A Regulatory Impact Statement has been prepared in connection with the issue of this Standard.