

Dear Chris and Simon,

Invitation to Comment on IASB Request for Information of Post-implementation Review: IFRS 8 Operating Segments

Thank you for the HKICPA letter dated 13 September 2012 on the subject matter to our Mr. Mark Dickens, Head of Listing, which has been passed to me for my attention as the HKEx representative member on the HKICPA Financial Reporting Standards Committee.

I have the following comments on the Request for Information:

- 1) The Accounting Affairs unit of the Listing Division of the HKEx conducts a review of listed issuers' published financial reports annually for compliance with the disclosure requirements of the Listing Rules and accounting standards. "Segment Information" was the accounting review theme of the Financial Statements Review Programme Report 2011 (the "FSRP Report 2011"). The FRSP 2011 report is available at <http://www.hkex.com.hk/eng/rulesreg/listrules/listguid/Documents/frm-11.pdf>
- 2) In the FSRP Report 2011, from pages 29 to 32, are our findings regarding the general accounting theme - segment information. It was noted that the level of compliance of IFRS 8/ HKFRS 8 for issuers under review was generally satisfactory. Most of the issuers determined operating segments by business lines and disclosed the types of products and services from which each reportable segment derived its revenue. Issuers usually presented detailed segment income statements but the presentation of full segment balance sheets was less common.
- 3) However, there were minor omissions in disclosures as follows:
 - (a) some issuers did not mention whether the segment analysis was prepared based on the information submitted to and reviewed by the chief operating decision maker, as required under paragraph 23 of IFRS 8.

- (b) the factors or criteria used to identify the reportable segments, as required under paragraph 22(a) of IFRS 8, was not disclosed;
 - (c) the entity-wide information required under paragraphs 31 to 34 of IFRS 8, that is, information about products and services, geographical areas and major customers, were not disclosed; and
 - (d) some issuers had a segment classified as “Others” but no description of what sources of revenue were included in the “Others” segment as required under paragraph 16 of IFRS 8/HKFRS 8.
- 4) Furthermore, some issuers did not further explain the reasons for the fluctuations revealed in the segment information in their Management Discussion and Analysis report.

In relation to the post-implementation review, I would like to commend you and the HKICPA team in organizing the recent IASB/HKICPA IFRS 8 Forum on 27 September 2012, with the accounting profession in HK including preparers and investors, where Michael Stewart, Director of Implementation Activities at the IASB, attended by Conference call. I believe, all participants found the event useful and I would encourage HKICPA to do more of these IFRS events.

I would like to set out below some enhancements, if it is considered appropriate, that could be made to the extant requirements of IFRS/HKFRS 8, certain of these were discussed at the Forum and suggested in our FSRP Report 2011:

- (a) An explanation of the nature of the amounts and balances included under “unallocated items” of income, expenses, assets or liabilities would enhance the analysis of segment information;
- (b) A complete allocation of all items in the income statement and statement of financial position into relevant segments would provide useful information and better understanding of each segment’s performance to users; and
- (c) A two-dimensional segment information presentation in terms of both the business lines and geographical locations would provide easy to understand information to users of financial statements. This information should be readily

available in most companies. The format of this was provided to your team by a participant at the Forum.

Furthermore, given the implementation issues mentioned about IFRS 8 at the Forum, such as inconsistencies of segments between entities and commercial sensitivity of certain disclosures, and that organizations in most parts of the world are governed by controlling shareholders which would normally only like to provide the minimum disclosures required, most participants at the Forum were encouraging the IASB to have some prescribed form of disclosures in IFRS 8 within the framework of some key principles.

This will ensure that under the IFRS 8 regime, disclosures would be more comparable amongst entities and would reduce the concern of some issuers whereby they may be giving out more information than required, when their competitors may not be disclosing them. If the IASB thinks certain disclosures are useful for investors, participants were generally of the view that the IASB should prescribe it, subject to meeting the key principles under IFRS 8. Having said this, the IASB should be mindful that whatever new additional requirements which they may be considering as part of the post –implantation review, agreement with the US FASB should be obtained such that we have a global standard and a plain level playing field as recommended by the G20. The IASB may also wish to consider removing the remaining differences with US GAAP (SFAS 131) as listed in IFRS 8.BC60 if there are further discussions with US FASB on this subject.

I hope my above comments are useful. Should you require any further clarification, please let me know.

Thanks.

Kind regards,
Steve

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