



IFRS Interpretations Committee

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Comments on the Tentative Agenda Decision; Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8)

FAR, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the Tentative Agenda Decision – *Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8)*.

Summary of FAR’s comment letter response

FAR agrees with the Committee’s analysis of the general disclosure requirements of IFRS 8 paragraph 23, such as described in the TAD. However, FAR does not agree with the Committee’s interpretation of paragraph 23(f) disclosure of material items of income and expense for each reportable segment. In FAR’s opinion, paragraph 23(f) must be interpreted by addressing both IAS 1 paragraphs 97 and 98. FAR does not see that the Committee has fully applied IAS 1 paragraph 97’s relation with paragraph 98, which, in FAR’s opinion, is critical in this analysis. Summarised, in FAR’s opinion, “material items” in this context is close to the meaning of “unusual items” and not items from normal day-to-day operations of the entity.

Therefore, FAR does not support the finalisation of the TAD as currently drafted and due to the extensive disclosure requirement, that might follow from the Committee’s interpretation of paragraph 23(f) and the potential significant consequences and change in current accounting practice of how IFRS 8 paragraph 23 is applied.

Due to the importance and the potential effects that this TAD will have on financial reporting, FAR recommends that the Committee submits this issue to the IASB for further discussion as a standard-setting project.

Explanation of FAR’s interpretation of the meaning of IFRS 8 paragraph 23(f)

Potential effects of the TAD as currently drafted

FAR is concerned that the TAD could be read to require that an extensive number of items of income or expense that are included in the measure of segment profit or loss reported to the CODM is

disclosed per segment. I.e. this means that all items, no matter the nature of them, shall be disclosed, if they are considered “material” either qualitatively or quantitatively. This interpretation would, as FAR reads it, require entities to make extensive segment disclosures that might be even more onerous than the primary statement of profit or loss. For example, it could be interpreted as requiring a company that presents an analysis of expenses recognised in profit or loss using a classification based on their function, to disclose all expenses by function for each operating segment, as well as disclosing additional information on the nature of expenses (based on paragraph 104 of IAS 1) by operating segment irrespective of whether this information is reviewed by the CODM or not; if included in the measure of profit or loss reviewed by the CODM.

This may have significant implications to current market practice, as entities typically do not provide such extensive segment profit or loss disclosures. FAR’s experience is that Swedish practice is consistent in applying paragraph 23(f) of IFRS 8 and paragraph 97 of IAS 1 in the context of paragraph 98 of IAS 1; i.e., only presenting or disclosing items that are not normal in the day-to-day operations. FAR’s understanding is that Swedish practice is far from unique in this sense. Furthermore, FAR are also concerned of the potential effects being that in order to avoid the extended information requirement, entities may change the measure of segment profit and loss reviewed by the CODM and/or the information otherwise regularly provided to the CODM.

Interpretation of paragraph 23(f)

According to the Committee, there are two main aspects to the questions of how to interpret IFRS 8 p 23:

- 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 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.

For the items listed in paragraph 23 of IFRS 8, those shall be disclosed if they are either included in the disclosed measure of segment profit or loss reviewed by the Chief Operating Decision Maker (“CODM”), or otherwise regularly provided to the CODM. FAR agrees with the Committee’s interpretation of this aspect, including for items included in the measure of profit or loss even if not reviewed separately by the CODM.

When considering whether an item of income or expense is within the scope of paragraph 97 of IAS 1, FAR think that paragraph 97 needs to be read in the context of paragraph 98 of IAS 1, which provides examples of circumstances that would give rise to the separate disclosure of items of income and expense. The type of items that arise from material circumstances according to paragraph 98 are, in FAR’s opinion, normally not considered to be part of the normal day-to-day operations of the entity. Had paragraph 97 of IAS 1 been intended to include normal day-to-day items, paragraph 98 of IAS 1 would not have included only non-normal items as examples. The requirements of paragraph 97 of IAS 1 therefore would not necessarily include all items of income and expenses that are quantitatively or qualitatively material.



Compliance with US GAAP

FAR also believes that the above interpretation of paragraph 97 of IAS 1 is supported by the fact that the potentially extensive interpretation in the tentative agenda decision is not identified in BC60 of the Basis for Conclusions on IFRS 8 as a difference from US GAAP; although this would be a significant difference. Had paragraph 23(f) of IFRS 8 been intended to be read as broadly as potentially indicated in the TAD, this would clearly have deserved being noted in BC60.

IFRS 8 and the US GAAP equivalent standard, Topic 280, are in all material aspects converged. Regarding the disclosure requirements related to segment profit and loss items, IFRS 8 paragraph 23(f) is very much aligned with the requirements in ASC 280-10-50-22 f, which in FAR’s opinion supports the meaning of “material items” such as derived from circumstances or events that are not considered to be part of the normal day-to-day operations of the entity. FAR also noted that in the basis for conclusions of IFRS 8, it is clear that the intention is full convergence between IFRS and US GAAP, with only limited differences between the standards as mentioned in BC60. Disclosure of revenues and expenses for reportable segments is not included in BC60.

For reasons indicated above, FAR believes that the reason for the different wording in paragraph 23(f) of IFRS 8 as compared to in ASC 280-10-50-22 f is not an intention for ‘material’ to be interpreted as broadly as indicated in the TAD. FAR believes the reason for referring to paragraph 97 in IAS 1 is that paragraph 97 and 98 of IAS 1, together, is the closest IFRS Accounting Standards get to the US GAAP term ‘unusual’.

The requirement in paragraph 23(f) of IFRS 8 and paragraph 97 of IAS 1 to disclose income and expenses items when they arise from circumstances or events that are not considered to be part of the normal day-to-day operations of the entity is aligned to the requirement in ASC 280-10-50-22 f. Please refer to the table below.

IFRS (IFRS 8, IAS 1)	US GAAP (ASC 280-10-50-22, ASC 220-20-45-1)
<p>IFRS 8 p. 23. An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker even if not included in that measure of segment profit or loss:</p> <ul style="list-style-type: none"> a. revenues from external customers; b. revenues from transactions with other operating segments of the same entity; 	<p>ASC 280-10-50-22. A public entity shall report a measure of profit or loss and total assets for each reportable segment. A public entity also shall disclose all of the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:</p> <ul style="list-style-type: none"> a. Revenues from external customers b. Revenues from transactions with other operating segments of the same public entity c. Interest revenue d. Interest expense

<ul style="list-style-type: none"> c. interest revenue; d. interest expense; e. depreciation and amortisation; f. material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 <i>Presentation of Financial Statements</i> (as revised in 2007); g. the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method; h. income tax expense or income; and i. material non-cash items other than depreciation and amortisation. 	<ul style="list-style-type: none"> e. Depreciation, depletion, and amortization expense f. Unusual items as described in paragraph 220-20-45-1 g. Equity in the net income of investees accounted for by the equity method h. Income tax expense or benefit i. Subparagraph superseded by Accounting Standards Update No. 2015-01 j. Significant noncash items other than depreciation, depletion, and amortization expense.
<p>IAS 1 p. 97. When items of income or expense are material, an entity shall disclose their nature and amount separately.</p> <p>IAS 1 p. 98. Circumstances that would give rise to the separate disclosure of items of income and expense include:</p> <ul style="list-style-type: none"> 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. 	<p>Presentation of Unusual or Infrequently Occurring Items – 220-20-45-1</p> <p>A material event or transaction that an entity considers to be of an unusual nature or of a type that indicates infrequency of occurrence or both shall be reported as a separate component of income from continuing operations.</p> <p>The nature and financial effects of each event or transaction shall be presented as a separate component of income from continuing operations or, alternatively, disclosed in notes to financial statements (see paragraph 220-20-50-1).</p> <p>Gains or losses of a similar nature that are not individually material shall be aggregated. Such items shall not be reported on the face of the income statement net of income taxes. Similarly, the EPS effects of those items shall not be presented on the face of the income statement.</p>

Understandability of the TAD

FAR is concerned that the conclusions in the TAD in relation to questions (b) and (c) in the submission are not easy to understand and risk being difficult to apply. E.g., “*d. considers an item of income and expense for disclosure without regard to whether that item is presented or disclosed applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1*” appears contradictory to how paragraph 23(f) of IFRS 8 reads. Paragraph 23(f) of IFRS 8 is clear that the items to be disclosed need to follow from paragraph 97 of IAS 1; i.e., that paragraph 97 of IAS 1 needs to be regarded. Except for the conclusion on question (a) in the submission, FAR believes that the TAD would be difficult to understand and apply without e.g. reading the related staff paper. At the same time FAR



reiterates the recommendation that the Committee refers the issue to the IASB, rather than clarifies the TAD in a final AD.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'P. Lundqvist'.

Pernilla Lundqvist
Chairman Accounting Practices Committee