

# HKFRSs / IFRSs UPDATE

2010/01

7 January 2010

## HKFRS 8 'OPERATING SEGMENTS' IMPLEMENTATION EXPERIENCE

### Introduction

1. HKFRS 8 is effective for the first time for the December 2009 year-end. It superseded HKAS 14 "Segment Reporting".
2. HKFRS 8's core principle is that a company whose debt or equity instruments are publicly traded should disclose information about its **reportable segments**, to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates.
3. HKFRS 8 requires companies to provide an analysis of profit, assets and liabilities so that investors can see the performance of the principal operations or "segments". **Operating segments** are components of a company 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. HKFRS 8 therefore requires companies to report publicly in the same way as they measure performance and allocate resources internally.
4. The new standard's requirements for management to define the company's operating segments in accordance with how its operations are managed in practice represent the IASB's response to criticisms of IAS 14 (HKAS 14), in order to reduce the ability of management to disguise poor performance of a part of the business, and to enable investors to review a company's operations from the same perspective as management.
5. Upon adoption of HKFRS 8, the identification of a company's segments may or may not change, depending on how it has applied HKAS 14 in the past.

### STATUS

Final

### EFFECTIVE DATE

Periods beginning on or after 1 January 2009

### ACCOUNTING IMPACT

Disclosure only

### Detailed Requirements

6. Further discussions and explanations on the requirements of HKFRS 8 can be found in the BDO Publication "[A Guide to the new Hong Kong Financial Reporting Standards 2009](#)".

## UK experience on implementation

7. The Financial Reporting Review Panel (the "Panel") of the UK FRC has reviewed a sample of 2009 interim accounts and 2008 annual accounts (when they had earlier applied the standard) and has published a [PN](#) expressing its concerns about how companies are reporting the performance of key parts of their business in the light of the introduction of IFRS 8. The key points of this PN are summarised below to facilitate users of HKFRS 8 in its preparation of published segment information.
8. The Panel has asked a number of companies to provide additional explanations where:
  - ▶ Only one operating segment is reported, but the group appears to be diverse with different businesses or with significant operations in different countries;
  - ▶ The operating analysis set out in the narrative report differs from the operating segments in the financial statements;
  - ▶ The titles and responsibilities of the directors or executive management team imply an organisational structure which is not reflected in the operating segments; or
  - ▶ The commentary in the narrative report focuses on non-IFRS measures whereas the segmental disclosures are based on IFRS amounts.
9. The Panel also encourages Boards of Directors to test their initial conclusions about their segmental reporting by considering the following questions:
  - ▶ What are the key operating decisions made in running the business?
  - ▶ Who makes these key operating decisions?
  - ▶ Who are the segment managers (as defined in the standard) and who do they report to?
  - ▶ How are the group's activities reported in the information used by management to review performance and make resource allocation decisions between segments?
  - ▶ Is any proposed aggregation of operating segments into one reportable segment supported by the aggregation criteria in the standard, including consistency with the core principle?
  - ▶ Is the information about reportable segments based on IFRS measures or on an alternative basis?
  - ▶ Have the reported segment amounts been reconciled to the IFRS aggregate amounts?
  - ▶ Do the accounts describe the factors used to identify the reportable segments including the basis on which the company is organised?
  - ▶ As a final question, management should ask themselves whether the reported segments appear consistent with their internal reporting and, if not, why not.
10. The Panel highlights the fact that no exemption is given from any aspect of IFRS 8 on the grounds that disclosure would be commercially prejudicial. The Panel announced in a [PN dated 15 September 2009](#) that it had reviewed the 2007 accounts of a listed company with a qualified auditor's report for disagreement in relation to non-compliance with IFRS 8. The Panel concluded that the company's failure to disclose certain information required by IFRS 8, on the grounds of commercial sensitivity, was not in accordance with that standard.

## BDO's support and assistance on HKFRS

For any support and assistance on HKFRS, please talk to your usual BDO contact or Stephen Chan, Partner and Head of Technical & Training at 2853 5820 or email [StephenChan@bdo.com.hk](mailto:StephenChan@bdo.com.hk)

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