

2017

# OPERATING SEGMENTS – THEMATIC SURVEY

*OCTOBER 2017*

IRISH AUDITING AND ACCOUNTING SUPERVISORY AUTHORITY

## **MISSION**

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest

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## 1. INTRODUCTION

The Irish Auditing & Accounting Supervisory Authority ('IAASA'), Ireland's accounting enforcer, has responsibility for the examination and enforcement of the periodic financial reports of certain listed entities ('issuers').

IAASA has undertaken a desk top survey of issuers' operating segment disclosures.

Section 3 of this Paper presents the results of that desk top survey.

Section 4 of this Paper sets out the IAASA examination activity relating to issuers' operating segment disclosures following our annual examination programmes over the last number of years.

International Financial Reporting Standard ('IFRS') 8 *Operating Segments* require entities to disclose information about the entity's operating segments, its products and services, the geographical areas in which it operates and its major customers. IFRS 8 requires the disclosure of certain key items by segment so as to enable users to evaluate the nature and the financial effects of the business activities in which the entity engages and the economic environment in which it operates.

IAASA's survey is based on the 2016/17 annual financial reports published by all twenty eight equity issuers falling within IAASA's financial reporting review remit together with Allied Irish Banks plc (a debt issuer as at 31 December 2016) (see Appendix).

Readers should note that, in undertaking this survey, additional information was not sought from the selected issuers.

## 2. PURPOSES OF THE SURVEY

The primary purposes of this survey are:

- (a) to determine the number of operating segments that the selected issuers presented in their financial statements, together with a high level review of the type of information disclosed by issuers regarding their operating segments; and
- (b) to provide preparers, auditors and users of financial statements with information to encourage discussion and stimulate debate on issuers' operating segment disclosures.

## 3. OPEPERATING SEGMENTS SURVEY RESULTS

### 3.1 Number of operating segments presented

Paragraph 5 of IFRS 8 *Operating Segments* defines an operating segment and states that:

*'An operating segment is a component of an entity:*

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),*
- (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and*
- (c) for which discrete financial information is available'*

IAASA's desk top survey identified a total of 84 operating segments that were presented by the 29 selected issuers in their most recently published annual reports.

Table 1 below sets out the number of operating segments that were presented by each of the issuers included in this survey:

**TABLE 1 – NUMBER OF OPERATING SEGMENTS PRESENTED BY ISSUERS**

Issuer	Number of segments presented
1 CRH plc	7
2 Hibernia REIT plc	6
3 Bank of Ireland	5
4 C&C Group plc	5
5 Dalata Hotel Group plc	4
6 Glanbia plc	4
7 Green REIT plc	4
8 Kingspan Group plc	4
9 Paddy Power Betfair plc	4
10 Allied Irish Banks plc	3
11 Aminex plc	3
12 Aryzta AG	3
13 DCC plc	3
14 Grafton Group plc	3
15 Greencore Group plc	3
16 UDG Healthcare plc	3
17 Datalex plc	2
18 FBD Holdings plc	2
19 IFG Group plc	2
20 Irish Continental Group plc	2
21 Kerry Group plc	2
22 Permanent TSB Group Holdings plc	2
23 Smurfit Kappa Group plc	2
24 Cairn Homes plc	1
25 Independent News & Media plc	1
26 Irish Residential Properties REIT plc	1
27 Kenmare Resources plc	1
28 Mainstay Medical International plc	1
29 Ryanair Holdings plc	1
<b>Total</b>	<b>84</b>

It is also interesting to note that CRH plc presented the largest number of operating segments with seven, while six issuers have just one operating segment.

### 3.2 Identification of the Chief Operating Decision Maker ('CODM')

IFRS 8.7 defines the term CODM and states that:

*'The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive or chief operating officer but, for example, it may be a group of executive directors or others.'*

Table 2 below sets out the CODM for each of the issuers included in this survey:

**TABLE 2 – CODM OF EACH ISSUER**

<b>Issuer</b>	<b>CODM</b>
1 Allied Irish Banks plc	Leadership Team
2 Aminex plc	Chief Executive Officer
3 Aryzta AG	Chief Executive Officer
4 Bank of Ireland	Not specified
5 C&C Group plc	3 executive directors
6 Cairn Homes plc	Board of directors
7 CRH plc	Group Chief Executive and Finance Director
8 Dalata Hotel Group plc	Chief Executive Officer and the Board of directors
9 Datalex plc	Executive Management Team
10 DCC plc	Chief Executive Officer and his Executive Management Team
11 FBD Holdings plc	Chief Executive Officer
12 Glanbia plc	Operating executive
13 Grafton Group plc	Board of directors
14 Green REIT plc	Board of directors
15 Greencore Group plc	Not specified
16 Hibernia REIT plc	Board of directors
17 IFG Group plc	Chief Executive Officer
18 Independent News & Media plc	Board of directors
19 Irish Continental Group plc	Board of directors
20 Irish Residential Properties REIT plc	Board of directors
21 Kenmare Resources plc	Board of directors
22 Kerry Group plc	Executive directors
23 Kingspan Group plc	Board of directors
24 Mainstay Medical International plc	Chief Executive Officer
25 Paddy Power Betfair plc	Board of directors
26 Permanent TSB Group Holdings plc	Group Executive Committee
27 Ryanair Holdings plc	Chief Executive Officer
28 Smurfit Kappa Group plc	Executive Management Team
29 UDG Healthcare plc	Chief Executive Officer

It is interesting to note that eleven issuers identified the Board of directors as the CODM, while seven issuers identified the Chief Executive Officer as the CODM.

### **3.3 IFRS 8 – General information**

IFRS 8.22 states that:

*'An entity shall disclose the following general information:*

- (a) factors used to identify the entity's reportable segments including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated);*
- (aa) the judgements made by management in applying the aggregation criteria in paragraph 12. This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics; and*

(b) ...'

Certain issuers did not provide all of the information required by IFRS 8.22. It is noted that:

- (a) three issuers did not disclose the factors used to identify their reportable segments in accordance with IFRS 8.22(a);
- (b) one issuer disclosed the information required by IFRS 8.22(a) for only one of its three reportable segments; and
- (c) six issuers did not disclose the judgements made by management in applying the operating segment aggregation criteria.

### 3.4 IFRS 8 – Measurement

IFRS 8.27 states that:

*'An entity shall provide an explanation of the measurements of segment profit or loss, segment assets and segment liabilities for each reportable segment. At a minimum, an entity shall disclose the following:*

- (a) *the basis of accounting for any transactions between reportable segments.*
- (b) *the nature of any differences between the measurements of the reportable segments' profits or losses and the entity's profit or loss before income tax expense or income and discontinued operations (if not apparent from the reconciliations described in paragraph 28). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.*
- (c) ...'

A number of issuers did not completely provide the information required by IFRS 8.27(a) and IFRS 8.27(b). It is noted that:

- (a) seven issuers either did not provide or specifically address the basis of accounting for any transactions between their reportable segments in accordance with IFRS 8.27(a); and
- (b) two issuers did not disclose the nature of differences between the measurements of the reportable segments' profits or losses and the entity's profit or loss before income tax expense.

### 3.5 IFRS 8 – reconciliations

IFRS 8.28 states that:

*'An entity shall provide reconciliations for all of the following:*

- (a) ...
- (b) *the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.*
- (c) *the total of the reportable segments' assets to the entity's assets if the segment assets are reported in accordance with paragraph 23.*
- (d) *the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.*
- (e) ...'

Certain issuers did not provide all of the reconciliations as required by IFRS 8.28. It is noted that:

- (a) one issuer did not provide a complete reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax in accordance with IFRS 8.28(b);
- (b) two issuers did not provide complete reconciliations of the total of the reportable segments' assets and liabilities to the entity's assets and liabilities in accordance with IFRS 8.28(c) and (d); and
- (c) two issuers did not provide complete reconciliations of the total of the reportable segments liabilities to the entity's liabilities in accordance with IFRS 8.28(d).

### **3.6 IFRS 8 – information about geographical areas**

IFRS 8.33 states that:

*'An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:*

- (a) revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.*
- (b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately ...'*

Certain issuers did not provide all of the information required by IFRS 8.33. It is noted that:

- (a) one issuer did not completely disclose the information required by IFRS 8.33 (a) and (b); and
- (b) two issuers did not disclose the geographical information for non-current assets in accordance with IFRS 8.33(b)

#### 4. IAASA ACTIVITY RELATING TO IFRS 8 OPERATING SEGMENTS

As part of its programme of examining the financial statements of issuers, IAASA has engaged with a number of issuers over the last number of years, regarding their IFRS 8 disclosures.

Table 3 below sets out examples of such matters and the outcome of the examinations.

**TABLE 3 – IAASA ACTIVITY RELATING TO IFRS 8 DISCLOSURES**

Matter raised	Outcome
<p>1. Directors' rationale for not disclosing the judgements made by management in applying the aggregation criteria in accordance with IFRS 8.22(aa).</p>	<p>The directors provided an undertaking to disclose the judgements made by management in applying the aggregation criteria in future periodic financial statements.</p>
<p>2. Directors' rationale for not disclosing the following information in their annual report:</p> <p>(a) a measure of total assets and liabilities for each reportable segment [IFRS 8.23 refers];</p> <p>(b) reconciliations of the total reportable segments' assets and liabilities to the entity's assets and liabilities [IFRS 8.28(c) and (d) refers]; and</p> <p>(c) the amounts of additions to non-current assets other than financial instruments, deferred tax assets, net defined benefit assets and rights arising under insurance contracts [IFRS 8.24(b) refers].</p>	<p>The directors provided an undertaking to disclose the assets and liabilities of each reportable segment, together with, the additions to non-current assets for each reportable segment in future periodic financial statements.</p>
<p>3. Directors' rationale for excluding goodwill from its geographical analysis of 'non-current assets' [IFRS 8.33(b) refers].</p>	<p>The directors provided an undertaking to include the appropriate amount of goodwill attributed to the country of domicile and the amount attributed to all other countries in the disclosure of the geographical analysis of non-current assets in future periodic financial statements.</p>
<p>4. Directors of an issuer with one operating segment were requested to outline their rationale for not disclosing the entity-wide disclosures as required by IFRS 8.31 to 34.</p>	<p>The directors provided an undertaking that the entity-wide disclosures would be disclosed in future periodic financial statements in accordance with IFRS 8.31 to IFRS 8.34.</p>
<p>5. Directors of an issuer were requested to clarify whether certain operating segments had been aggregated for the purposes of IFRS 8.</p>	<p>The directors provided an undertaking to include additional narrative in future periodic financial statements to clarify that it has just one operating segment.</p>

## 5. CONCLUSIONS

IAASA will continue to focus on and engage with issuers in relation to:

- (a) clarifications regarding the information that is reviewed by the CODM;
- (b) the disclosure of the directors' judgements in applying the aggregation criteria when aggregating two or more operating segments;
- (c) the rationale for not disclosing:
  - (a) the information about profit or loss, assets and liabilities [IFRS 8.23 refers];
  - (b) reconciliations of particular items as required by IFRS 8.28; and
  - (c) entity-wide disclosures [IFRS 8.31 to IFRS 8.34 refer].

It is also IAASA's expectation that management, Boards and Audit Committees will continue to carefully assess and consider the disclosure requirements of IFRS 8 *Operating Segments* and ensure that all relevant information is disclosed in their financial statements.

## APPENDIX

### ISSUERS INCLUDED IN THIS SURVEY

	Issuer	Report
1	Allied Irish Banks plc	31 December 2016
2	Aminex plc	31 December 2016
3	Aryzta AG	31 July 2016
4	Bank of Ireland	31 December 2016
5	C&C Group plc	28 February 2017
6	Cairn Homes plc	31 December 2016
7	CRH plc	31 December 2016
8	Dalata Hotel Group plc	31 December 2016
9	Datalex plc	31 December 2016
10	DCC plc	31 March 2017
11	FBD Holdings plc	31 December 2016
12	Glanbia plc	31 December 2016
13	Grafton Group plc	31 December 2016
14	Green REIT plc	30 June 2016
15	Greencore Group plc	30 September 2016
16	Hibernia REIT plc	31 March 2017
17	IFG Group plc	31 December 2016
18	Independent News & Media plc	31 December 2016
19	Irish Continental Group plc	31 December 2016
20	Irish Residential Properties REIT plc	31 December 2016
21	Kenmare Resources plc	31 December 2016
22	Kerry Group plc	31 December 2016
23	Kingspan Group plc	31 December 2016
24	Mainstay Medical International plc	31 December 2016
25	Paddy Power Betfair plc	31 December 2016
26	Permanent TSB Group Holdings plc	31 December 2016
27	Ryanair Holdings plc	31 March 2017
28	Smurfit Kappa Group plc	31 December 2016
29	UDG Healthcare plc	30 September 2016