

Introduction to IFRS / Ind AS



The Beginning

IFRS 8 - Operating Segments



Agenda

IFRS 8 Introduction

Stage 1 – CODM

Stage 2 – Operating segments

Stage 3 – Reportable segments

Stage 4 – Disclosures

Comparison – IAS 14 and FAS 131

Introduction to Segment reporting



US GAAP

- FAS 14 – 1976
- **FAS 131 – 1997**

IFRS

- IAS 14 – 1981
- IAS 14 Revised – 1997
- **IFRS 8 – 2007**

Indian GAAP

- AS – 17 - 2000

January

1

2009

**(annual reports
Beginning on or
After)**

IFRS – 8 – Operating Segment

What are core principles ?



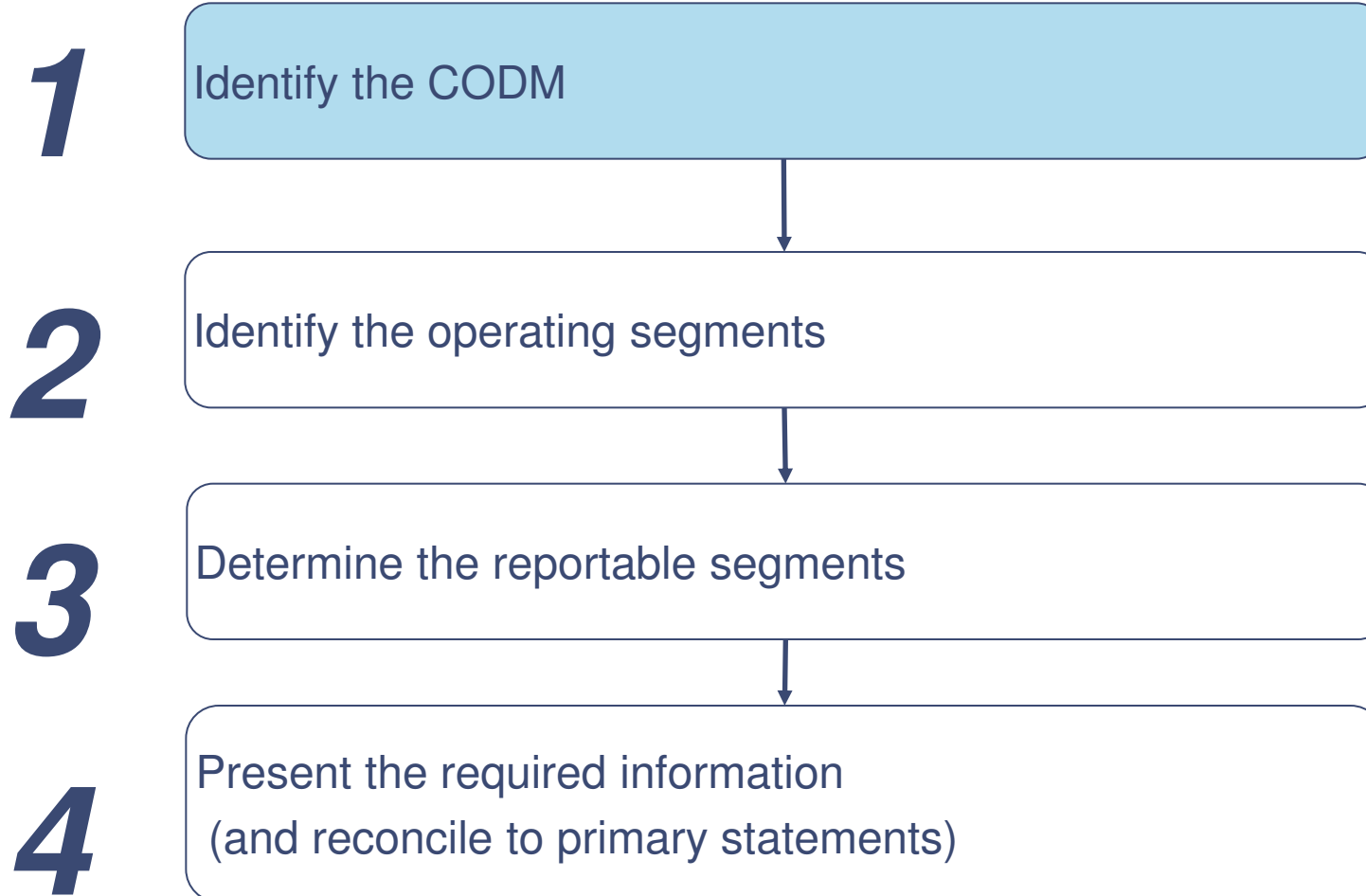
Disclose information to enable users of its financials:

a) to evaluate the nature and financial effects of the types of business activities in which it engages

and

b) the economic environments in which it operates

The Road to IFRS 8 – 4 simple stages:



Chief Operating Decision Maker (CODM)

1

Para 7 of IFRS 8 defines the CODM

- **Identified as a function**

- **Function that**
 - Allocates resources of the entity
 - Assesses performance of the operating segments of the entity

- **Can be an individual or a group of individuals**



Who is a CODM ?

1

Which of the following positions could be (for instance) a Chief Operating Decision Maker ?

A Chief Financial Officer

A group of Management

A Chief Executive Officer

The Board of Directors



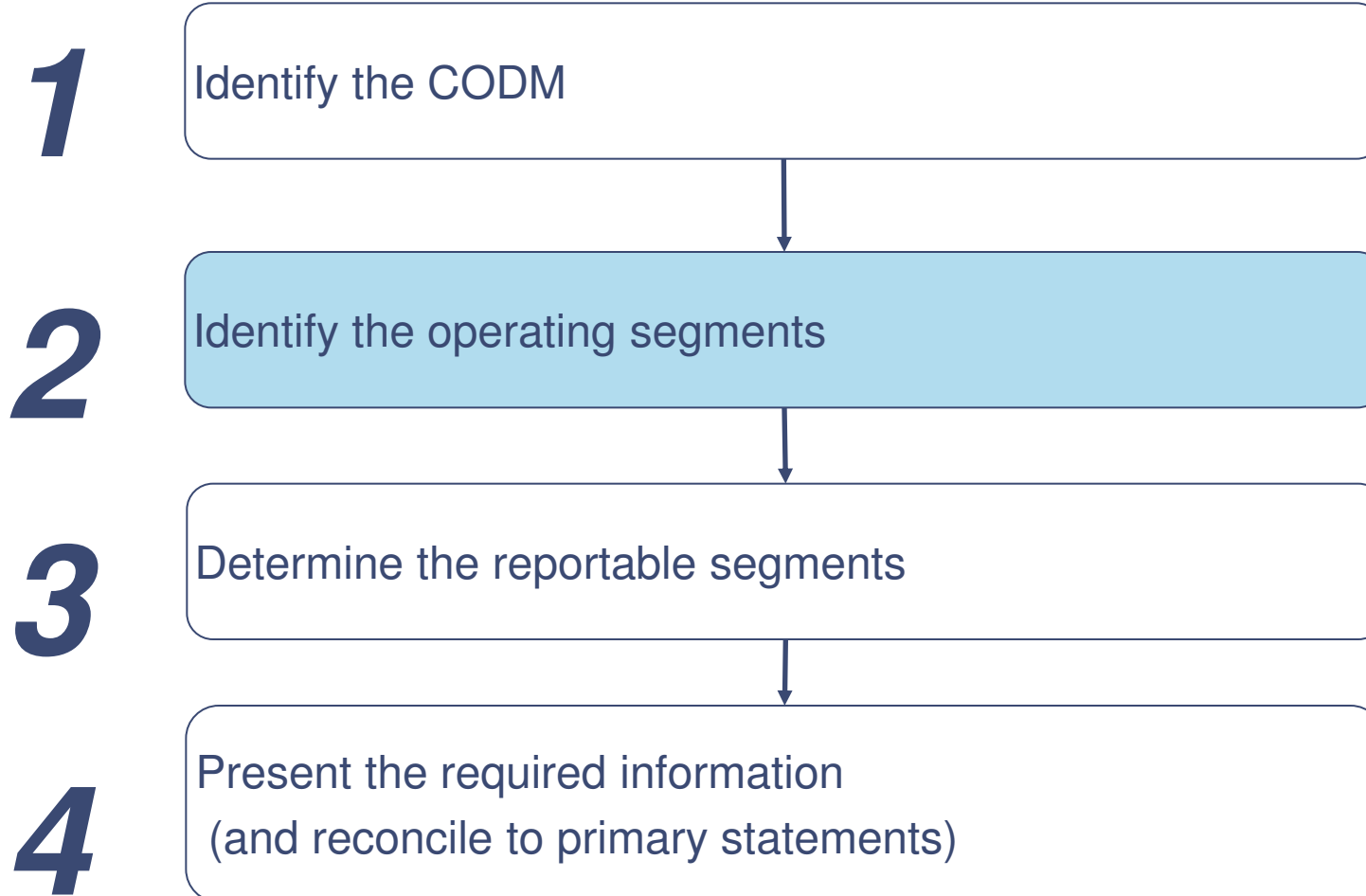
Chief Operating Decision Maker (CODM)

1

- **First step in the determination of operating segments**
 - Errors in this step carry directly through the remaining analysis
- **Judgmental area** – consider the following factors
 - Ultimately responsible for the results of the entity
 - Typically interacts and reports to the owners of the entity
 - Directs the allocation of investment and holds others accountable for the results of that investment
 - Highest level of management in the entity



The Road to IFRS 8 – 4 simple stages:



What are Operating Segments?

2

An operating segment is a component of an entity 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) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available



SEC Comments

(Form 10-Q; SIC: 3411 Metal Cans)
(#165)

You disclose that you operate in three segments, North American packaging, international packaging and aerospace and technologies. However, in your business section and MD&A you separately discuss product lines such as North American metal beverage containers, North American metal food containers and North American plastic containers. Please tell us the factors used to identify the Company's reportable segments and explain why you believe that North American metal beverage, North American metal food and North American plastics are not separate reportable segments pursuant to paragraphs 10-17 of SFAS No. 131. See also paragraph 26 of SFAS 131.

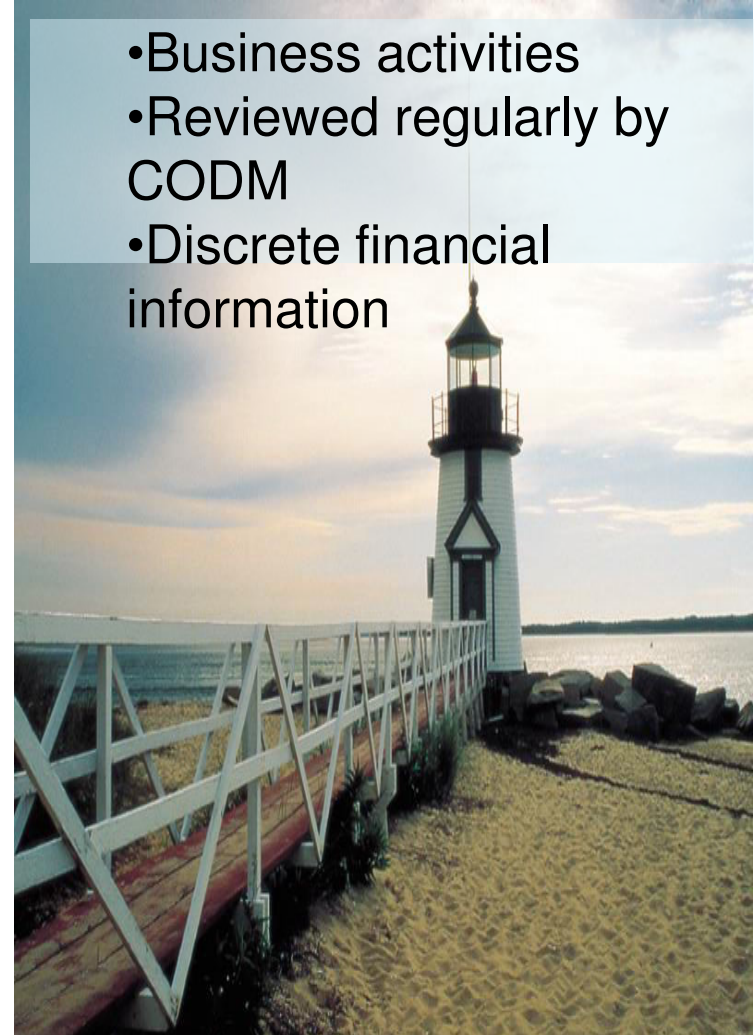


SEC Comments

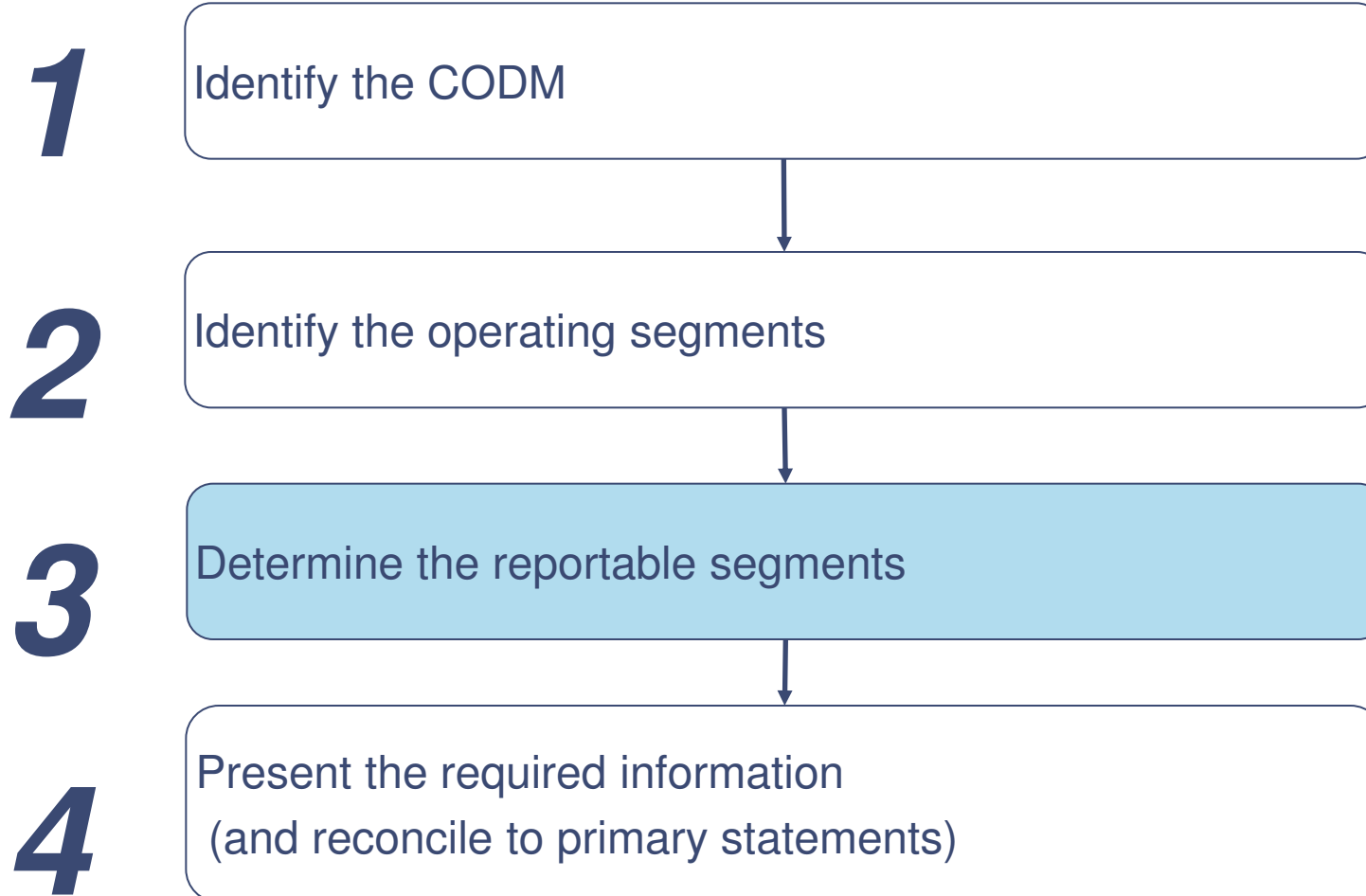
(Form 10-K; SIC: 4731 Arrangement of Transportation of Freight & Cargo) (#214)

We note your disclosure regarding your consideration of SFAS 131, and conclusion that you operate in one business segment. However, based on your discussions throughout the document it would appear that segment reporting would be necessary, either by branch, product line or geography. Specifically, you state that each branch is responsible for its own growth and profitability, and that employees are compensated based on the financial performance of the branch. You also disclose the fact that gross profits and operating income are available for each of the branches. As such, these branches appear to meet the definition of a segment per paragraph 10 of SFAS 131. Please tell us your basis for your apparent conclusion that segment disclosure is unnecessary, including your consideration of SFAS 131, or revise your disclosures accordingly.

- Business activities
- Reviewed regularly by CODM
- Discrete financial information



The Road to IFRS 8 – 4 simple stages:



Determining reportable segments

3

Quantitative threshold : A segment is reportable if majority of its revenue is from sales to external customers and if:

- external and internal revenue from the segment is > 10% of the total revenue from all segments; or
- segment results are > 10% of the combined results or
- assets are > 10% of the total assets of all segments

Identify each operating segment that exceeds 10% threshold



Optional

Aggregate any operating segments that meet all aggregation criteria

Optional

For the remaining operating segments below 10% threshold, aggregate with each other if majority of aggregation criteria met



If reportable segments are less than 75% of revenue add more reportable segments

Determining reportable segments

Aggregation criteria:

Aggregation is consistent with core principle

Segments have similar economic characteristics

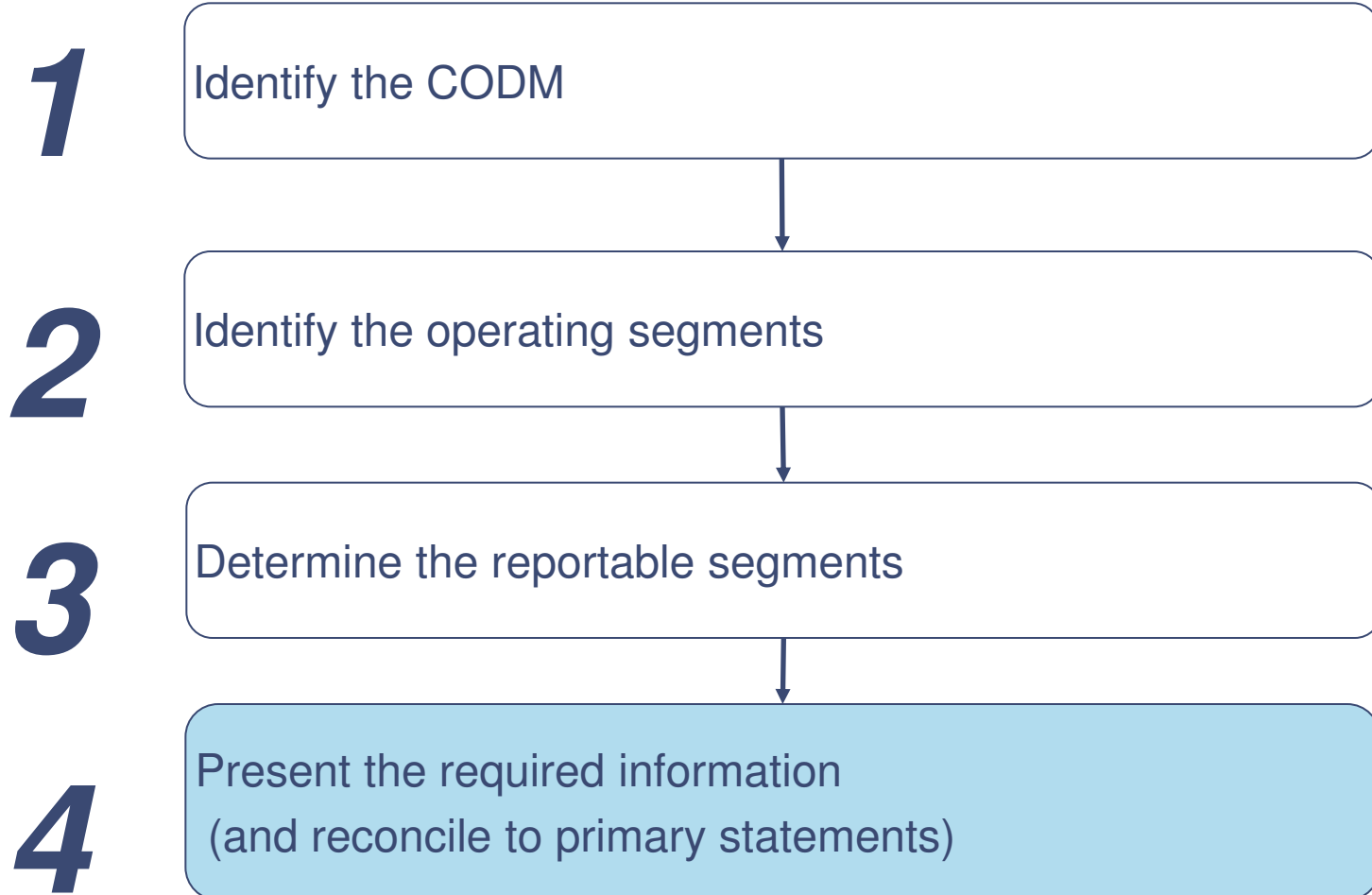
Segments similar on each of five specified criteria^{***}

AGGREGATING CRITERIA

- products and services
- production processes
- customers type or class
- distribution methods, and
- regulatory environments.

^{***} When aggregating two immaterial segments, only a majority of the five specified criteria need to be met

The Road to IFRS 8 – 4 simple stages:



IFRS – 8 Operating Segment Disclosures



Segments through the eyes of management

- General Information
- Specific Information
- Reconciliations



Financial Information management uses

Disclosure considerations

Disclosure of certain minimal information

Must disclose

**Non-GAAP
Measures**

Measure of assets

Measure of profit

**Disclose if provided in
some manner to CODM**

Segment liabilities

Significant items like depreciation,
interest, revenue

Associates and capex

Reconciliation of totals to primary financial statements

Disclosure considerations

- **Entity wide disclosures - Applies to all entities subject to standard (including entities with just one reportable segment)**
 - Information about products and services
 - Geographical areas
 - Domicile and foreign revenues
 - Domicile and foreign non-current assets
 - Major customers
- **Retrospective application in all the following:**
 - When adopted
 - When segment is initially identified as reportable
 - Changes in organization structure

Disclosure considerations

- **Reconciliations**

- Quantify and clearly explain each material reconciling item
- Measurement difference and asymmetrical allocations should be disclosed

- **Entity-wide disclosures**

- Segments organized on either geography or products and services may still require additional entity-wide disclosures
 - Segments by region (Europe, North America and Asia) will still require disclosure based on countries
 - Disclosures for products and services must be disaggregated if they are not substantially similar

- **Continuously review segment reporting**

- Ensure that changes in the business, the CODM or reorganizations are appropriately reflected in the segment footnote on a retrospective basis

4 simple stages - recap:

Present the required information
(and reconcile to primary statements)

Determine the reportable segments

Identify the operating segments

Identify the CODM

IFRS 8 Introduction – Differences between IFRS 8 and IAS 14

	IFRS 8	IAS 14
Who does it apply to?	Entities whose equity or debt securities are publicly traded or that issue equity or debt securities in a public market, or file (or are in the process of filing) financial statements with a regulatory organisation for purposes of issuing securities in a public market.	Entities that have publicly traded securities or are in the process of issuing them in a public securities market.
What are operating segments?	Business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker and for which discrete financial information is available.	Business- or geography-based components that are subject to risks and returns that are different from those of other components.
What information is reported on operating segments?	Reported information is based on information that management uses to run the business.	Reported information is based on the financial information presented in the consolidated financial statements.
What is the measurement of segment disclosures based on?	Segment disclosures are based on management information reported to the chief operating decision maker.	Segment disclosures are based on IFRS-compliant financial information.

IAS 24 - Related Party Disclosures

Introduction

- A related party is defined as a person or entity that is related to the entity that is preparing its financial statements.
- The standard requires disclosures of transactions between reporting entity and its related parties.
- Criteria for establishing related party relationships should be applied at Group level.
- A related party can be an individual, entity or an unincorporated business.
- In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Definition of a Related Party

***A related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’).**

(a) A person or its close member is related to a reporting entity if that person:

(i) has control or joint control; or

(ii) has significant influence; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

Definition of a Related Party (contd..)

***A related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’).**

- (b) An entity is related to a reporting entity if any of the following conditions applies:**
- (i) The entity and the reporting entity are members of the same group.**
 - (ii) One entity is an associate or joint venture of the other entity (or the group).**
 - (iii) Both entities are joint ventures of the same third party.**
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.**
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.**
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).**
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).**

A *person* is a related party to a reporting entity if

Key terms

Key management
personnel

Close family
members

Related party
transactions

KMP - Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, *directly or indirectly*, including any director (whether executive or otherwise) of that entity.

The definition clearly includes directors and the term 'or otherwise' is intended to cover non-executive directors and supervisory boards as well as those who have responsibility for the management and direction of a significant part of the business without holding the title 'director'.

Example – Non-executive directors' decisions are subject to governmental approval

The non-executive directors of entity A are appointed by a government minister. They are involved in planning and financing decisions, such as approval of budgets and contract negotiations, together with the executive directors. Final approvals are, however, required from the minister before their decisions can be executed.

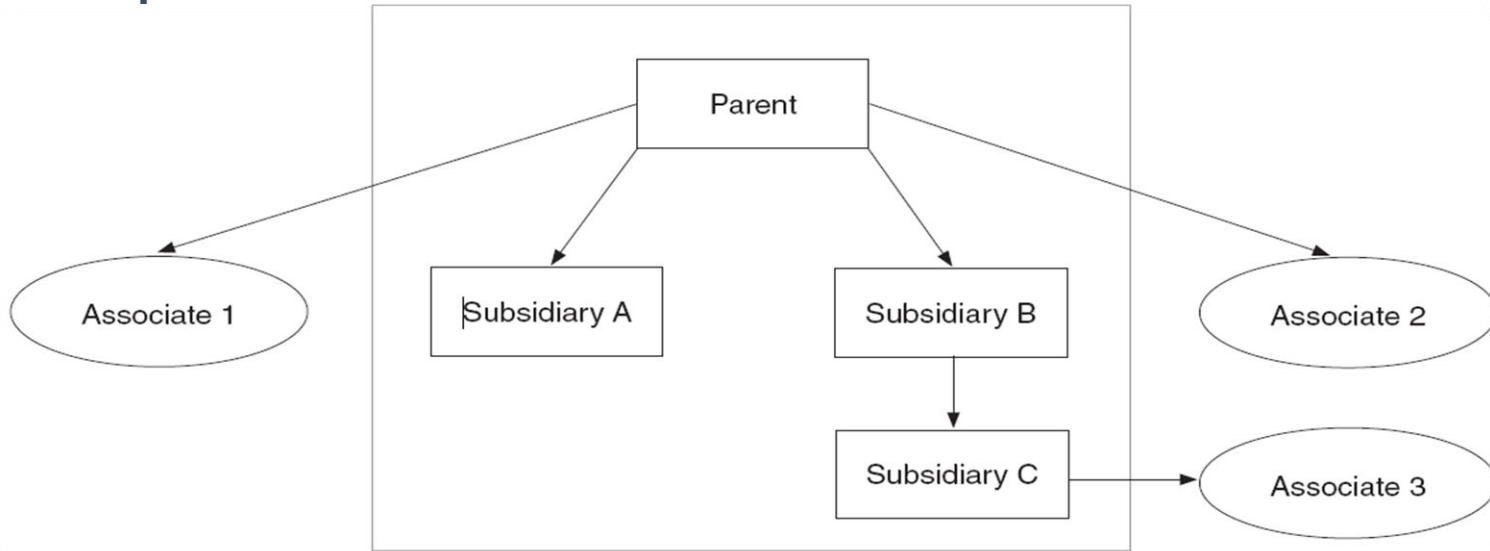
Entity A's management should consider the non-executive directors whose decisions are subject to the approval by the minister as related parties of entity A under paragraph 9(a)(iii) of IAS 24 (revised). Even if their decisions are subject to the approval by the minister, non-executive directors have the authority and responsibility for planning, directing and controlling entity A's activities.

The minister would also be a related party as he/she is clearly involved in the approval of key planning and financing decisions.

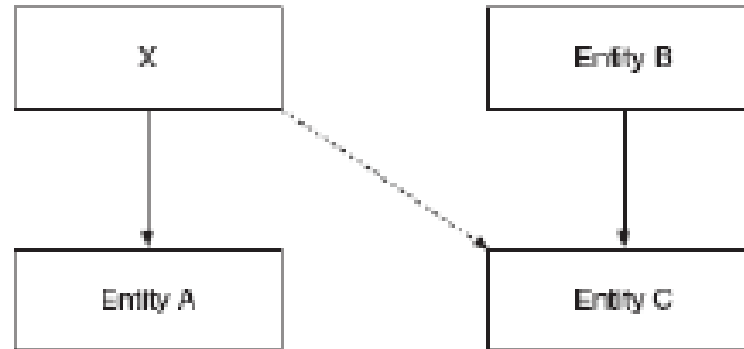
Close family members

Close members of the family of a person are the persons specified within meaning of 'relative' under the Companies Act 1956 and that person's domestic partner, children of that person's domestic partner and dependants of that person's domestic partner.

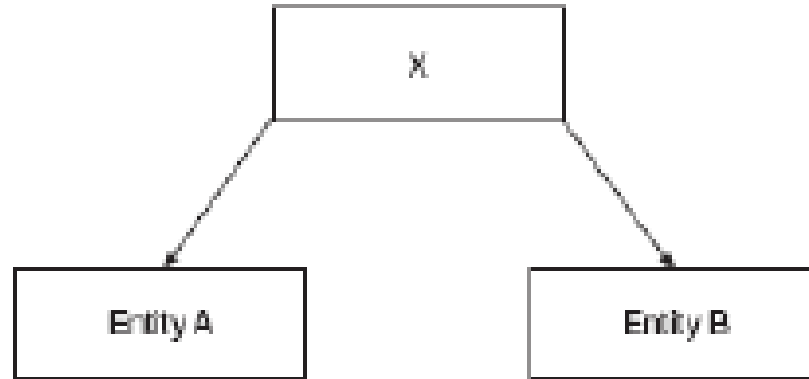
Example – Associates and Subsidiaries



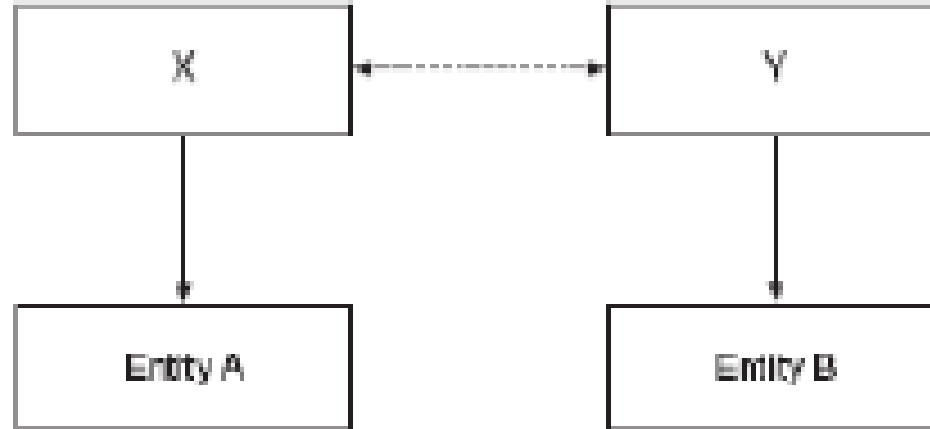
Example - KMP



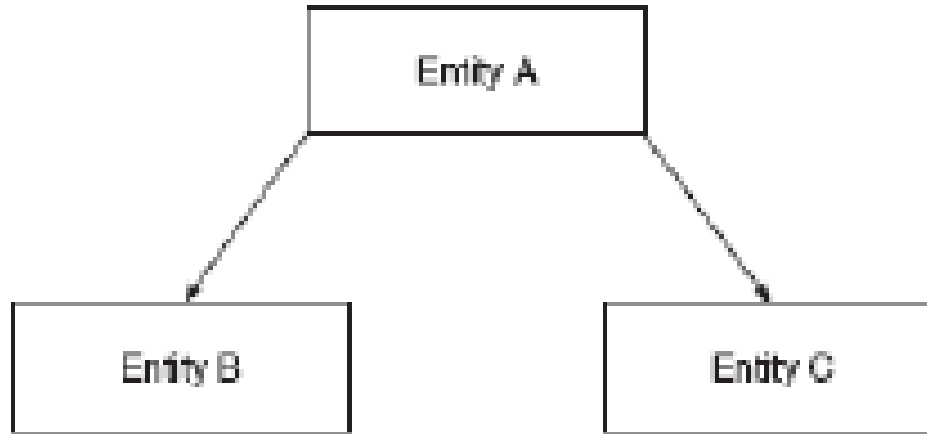
Example – Person as an investor



Example – Close member of family holding investments



Example – Entity with joint control



Disclosure

- The reporting entity should disclose the name of the parent or ultimate controlling party.
- The reporting entity should disclose the relationship between a parent and its subsidiaries ***irrespective of whether there have been any transactions between them.***
- An entity shall disclose key management personnel compensation
- If an entity has had related party transactions during the periods covered by the financial statements,
 - the amount of the transactions;
 - the amount of outstanding balances, including commitments and guarantees; and
 - provisions for doubtful debts related to the amount of outstanding balances; and
 - the expense recognised during the period in respect of bad or doubtful debts due from related parties.
- Disclosures that related party transactions are made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated

Difference between Ind AS and IFRS

Statute overriding related party transactions

Guidance on aggregation of transactions

Difference between IFRS / IND AS and Indian GAAP

	Indian GAAP	IFRS / IND AS
Definition of related party: Inclusion of post employment benefit plans	Does not include such relationships	Includes such relationships – e.g. gratuity fund, pension fund
Definition of KMP: Non-executive directors	Not included	Included (Also, any person having indirect authority and responsibility for planning, directing and controlling the activities of the entity included)
Definition of related party: Close relatives of KMP (Substance over form)	Includes only defined relationships	Close relatives of KMP as well as people who influence or can be influenced by the individual
Definition of 'Control'	Wider: power to govern the financial and/or operating policies of the management	Restrictive: power to govern the financial and operating policies of the management of the entity

Difference between IFRS and Indian GAAP

	Indian GAAP	IFRS / IND AS
Disclosure of Compensation to KMP	No mandate on providing breakup of compensation cost	Category-wise disclosure mandated including share-based payments
Arm's Length Basis of Related Party Transactions	No stipulation	No disclosure to be made to the effect that RPTs were on arm's length basis unless these can be substantiated
Outstanding Balances	No requirement to disclose terms and conditions	Requires disclosure of terms and conditions
Significant Influence: Rebuttable presumption	If 20% or more of voting power is held by any party	No such presumption prescribed

Thank You

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