



Grant Thornton

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Dear Kevin

ITC 27 Request for Comment on IASB Request for Information on Post-implementation Review: IFRS 8 Operating Segments

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board (AASB) with its comments on the Request for Comment on the International Accounting Standards Board's (IASB) Request for Information on Post-implementation Review: IFRS 8 Operating Segments.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations (NFPs). This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its due date of 16 November 2012, and discussions with key constituents including a 3 October 2012 Discussion Forum hosted by the AASB in Melbourne.

We strongly support the post-implementation review process and therefore welcome the publication of the Request for Information. Our responses to the questions in the Request for Information's Invitation to Comment are set out below.

Question 1

Are you comparing IFRS 8 with IAS 14 or with a different, earlier segment-reporting Standard that is specific to your jurisdiction?

In providing this information, please tell us:

- (a) what your current job title is;**
- (b) what your principal jurisdiction is; and**
- (c) whether your jurisdiction or company is a recent adopter of IFRSs.**

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Our Ref: L-121012-ITC27 IFRS 8 Operating Segments Post-Implementation Review.Docx

This letter is sent on behalf of Grant Thornton Australia Limited which is a member firm of Grant Thornton International - one of the world's leading organisations of independently owned and managed accounting and consulting firms. These firms provide assurance, tax and advisory services to privately held businesses and public interest entities. More than 2,500 partners and 30,000 staff provide clients with distinctive, high quality and personalised service in over 100 countries. We serve both publicly quoted entities and the privately-owned sector across the world. In many markets our publicly quoted clients are predominantly smaller listed entities for which issues of practical application of IFRSs are of particular concern.

Accordingly, this letter reflects the experience of Grant Thornton member firms in a number of different jurisdictions. These include jurisdictions such as Australia in which IAS 14 was applied prior to IFRS 8, and jurisdictions that transitioned to IFRS after IFRS 8 came into effect.

Question 2

What is your experience of the effect of the IASB's decision to identify and report segments using the management perspective?

Our broad observation is that the adoption of a management perspective for reporting segment information has led to rather less extensive changes in practice than might have been expected. This reflects our observations that, in the majority of cases:

- the number of reportable segments determined in accordance with IFRS 8 is broadly comparable with the number of primary segments reported in accordance with IAS 14
- the segment profit measures reported are consistent with IFRS.

On the basis of these observations it is perhaps questionable whether IFRS 8 has really succeeded in its aim of allowing investors and other users to see the company's operations 'through the eyes of management' and to understand better the risks the company faces and how they are managed. However, we acknowledge that the views of investors and other users are paramount in this regard.

The following paragraphs discuss some possible reasons why the management perspective may not have delivered the extent of change (and benefits) that the Board anticipated.

Inherent limitations

The management perspective as implemented in IFRS 8 envisages an organisation and reporting structure in which an identifiable individual or function makes resource allocation and operating decisions using an identifiable segment information that is prepared and reviewed regularly. It is implicit in this model that the segment information is generally consistent from one period to the next, subject to occasional restructuring. In many organisations this model corresponds quite closely with reality. If so then identifying the appropriate segment information is clear and straightforward. However, this is not always the case.

- important decisions are of course usually informed by information on past financial performance, but are taken based on a far broader set of factors some of which are subjective; and
- reporting entities have many different management structures and supporting management information systems. At one end of the spectrum we observe entities

that prepare segment information only on an ad hoc basis. These are usually smaller or less sophisticated entities whose CEO has close day-to-day involvement with all the operations. At the opposite end of the spectrum some entities operate sophisticated enterprise reporting systems that provide information on a real-time basis and enable different reports to be generated for different purposes.

Interpretive issues and key judgements

- chief operating decision maker
- aggregation criteria

Question 3

How has the use of non-IFRS measurements affected the reporting of operating segments?

As noted above we have observed that a majority of entities appear to report segment information using measurement bases that are consistent with IFRSs.

That said, we also note extensive use of non-IFRS line items (such as EBITDA).

Question 4

How has the requirement to use internally-reported line items affected financial reporting?

The main effect we observed is widespread reporting of what might be described as non-GAAP line items (such as underlying earnings and EBITDA).

Questions 5 & 6

How have the disclosures required by IFRS 8 affected you in your role?

How were you affected by the implementation of IFRS 8?

We do not consider IFRS 8 to be a particularly complex or difficult standard to apply. This is supported by that fact that our Australian and global IFRS consultation service receives few questions relating to the interpretation or application of IFRS 8. That said, we note that the information provided in accordance with IFRS 8 is highly sensitive to key judgements about:

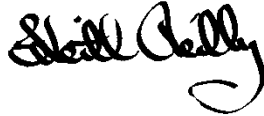
- identifying the chief operating decision maker (CODM)
- application of IFRS 8's aggregation criteria.

Consistent with the introduction of any other major new standard, we invested time and resources in training our people and in developing guidance (internal and external) on the application of IFRS 8.

We do observe that compliance issues relating to IFRS 8 are a fairly frequent source of audit adjustments (including during the 'hot review' stage of our audit process). This indicates an evident lack of attention to, and understanding of, the Standard on the part of some preparers. We also sometimes encounter resistance to the disclosure of 'internal information' in a few cases – including protestations that the information is commercially sensitive (as noted in the Request for Information).

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly
National Head of Professional Standards