Raymond Chabot Grant Thornton

Alerte de votre conseiller – IFRS

Aperçu d'IFRS 8 *Secteurs opérationnels*

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Résumé

Grant Thornton International Ltd a mis à jour *Insights into IFRS 8 – Segment information to be disclosed* (en anglais seulement).

Présentation

La série *Insights into IFRS 8* a été conçue dans le but d'illustrer comment IFRS 8 *Secteurs opérationnels* doit être appliquée et fournit des directives et des précisions sur certains aspects problématiques, ainsi que plusieurs exemples illustrant les exigences de la norme en matière d'information à fournir. Depuis sa publication initiale, une décision de l'IFRS Interpretation Committee (IFRIC) relative à la norme IFRS 8 a clarifié les obligations en matière d'informations à fournir sur les produits et les charges des secteurs à présenter.

Avant la décision de l'IFRIC, il existait une diversité de pratiques quant à l'interprétation des éléments importants des produits et des charges dans le contexte de l'information sectorielle. L'une des interprétations les plus courantes était que les éléments importants se limitaient aux éléments inhabituels ou non récurrents. Toutefois, l'IFRIC a conclu qu'un élément peut être important sans pour autant être inhabituel. Par conséquent, la décision de l'IFRIC est considérée comme importante, car elle fournit des directives claires dont les entités qui préparent des informations sectorielles doivent tenir compte, afin de garantir une interprétation plus cohérente des exigences d'IFRS 8.

Le document *Insights into IFRS 8 – Segment information to be disclosed* définit les informations sectorielles qui doivent être présentées dans les états financiers de l'entité communiquant l'information financière et a été mis à jour pour refléter ces directives de l'IFRIC.

Ressource

Le document *Insights into IFRS 8 – Segment information to be disclosed* (en anglais seulement) est joint à la présente *Alerte de votre conseiller - IFRS*.

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À propos de Raymond Chabot Grant Thornton

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Insights into IFRS 8

Segment information to be disclosed

Segment reporting is intended to give information to investors and stakeholders regarding the financial results and financial position of the entity that are used by the entity's chief operating decision maker (CODM). IFRS 8 'Operating Segments' was developed by the International Accounting Standards Board (IASB) to provide requirements to reporting entities on this area, that can be challenging to apply in practice.

Our 'Insights into IFRS 8' series is designed to illustrate how IFRS 8 should be applied and provides guidance and insight in some problematic areas. We also include several examples illustrating the Standard's disclosure requirements. This article sets out the segment information that is required to be disclosed in the financial statements of the reporting entity.

IFRS 8's 'management approach' has the effect that reportable segments and segment information will vary according to the information used by the CODM. As a result, disclosures will not be consistent between entities, even those operating in similar industries. It is therefore important that users are provided with an explanation of how management has identified both the entity's CODM and its operating segments and how the information reported to the CODM reconciles to the primary financial statements.

The disclosures required in IFRS 8 include both narrative and quantitative information.

Disclosure of the factors used to identify segments

IFRS 8 requires an entity to disclose the following general information:

- factors used to identify the entity's reportable segments, including the basis of organisation
- judgements made by management in aggregating the operating segments that share similar economic characteristics, including a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed, and
- types of products and services from which each reportable segment derives its revenues.

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The factors disclosed under the first bullet point above provide the readers of the financial statements with information as to how management has organised the entity. These disclosures should clearly indicate whether segments are based on products and services, geographical areas, regulatory environments or a combination of factors. The second bullet point requires indicating whether different operating segments have similar economic characteristics and have therefore been aggregated (see '**Insights into IFRS 8 – Aggregation of operating segments**'). The final bullet point in the general information disclosure requirements relates to the narrative disclosure on the types of products and services from which each reportable segment derives its revenue. In addition to this general requirement there is an entity-wide requirement to disclose revenue for each product and service (see '**Insights into IFRS 8 – Entity-wide disclosures**').

IFRS 8 requires quantitative information to be disclosed using the amounts presented to the CODM. This will often be different to the amounts reported in accordance with IFRS Accounting Standards which appear in the primary financial statements. Probably the most important judgement made in the application of IFRS 8 is the identity of the function of the CODM, as it is the information that is regularly used by the CODM that forms the basis for segmental reporting. In light of this, while not a formal disclosure requirement in IFRS 8, we believe it is good practice to disclose the individual or group identified as the CODM.

Quantitative information about profit or loss, assets and liabilities

The amounts disclosed for each segment item reflect what has been reported to the CODM. They should be the same amounts the CODM has used to allocate resources to the segment and assess its performance. These amounts will often be different from the measures used in the primary financial statements. Further disclosures are therefore needed to reconcile the segment measures to the primary statements (see reconciliation to IFRS primary financial statements below).

Although IFRS 8 generally requires disclosure on the basis of information used in the business, there are limited circumstances in which entities may need to obtain additional information to meet the requirements of IFRS 8 which are set out below.

Measure of segment profit or loss

The IASB anticipates that some sort of measure of segment profit or loss will be regularly reported to the CODM and so IFRS 8 requires an entity to report a measure of segment profit or loss.

In practice, the measure used by the CODM is likely to vary significantly between entities. Clear disclosure of the measurement basis used to prepare segment results will therefore be very important (see disclosure of measurement policies below).

Measure of segment assets

Where a measure of segment assets is reported to the CODM, that measure is required to be disclosed. In accordance with IFRS 8, the disclosure is based on what is reported to the CODM. If the internal reporting includes eg cash, inventory and accounts receivables, the sum of those three items is what needs to be disclosed.

IFRS 8 requires disclosure of a measure of segment assets. However, the IASB acknowledges that while a measure of segment profit or loss is expected in every entity's internal reporting, there may be circumstances where a measure of segment assets is not included. As a result, a measure of segment assets should only be disclosed when such information is provided to the CODM. This is consistent with the management approach and with the requirement for disclosure of a measure of segment liabilities only when such a measure is reported to the CODM (see below).

Measure of segment liabilities

IFRS 8 requires an entity to report a measure of liabilities for each reportable segment if, and only if, such an amount is regularly provided to the CODM.

Other specified segment measures

IFRS 8 requires disclosure of items when they are either included in the measure of segment profit or loss reviewed by the CODM or are otherwise regularly provided. This means the management reports presented to the CODM must be reviewed to identify whether these items are either included as separately disclosed amounts or have been charged/credited in arriving at segment results. If so, they must be disclosed. The specified amounts to be disclosed in these circumstances are:

- revenues from external customers
- revenues from transactions with other operating segments of the same entity
- interest revenue
- interest expense
- depreciation and amortisation
- material items of income and expense disclosed in accordance with IFRS 18 'Presentation and Disclosure in Financial Statements'
- the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method
- income tax expense or income, and
- material non-cash items other than depreciation and amortisation.

An entity reports interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the CODM relies primarily on net interest revenue to assess performance and make decisions. In that situation, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.

Practical insight – Disclosure of revenue and expenses for reportable segments

The IFRS Interpretations Committee (IFRIC) was asked to clarify:

- whether the specified amounts of revenue and expenses listed above are required to be disclosed for each reportable segment even if CODM does not separately review them
- how an entity should determine material items of income and expense disclosed in accordance with IFRS 18 that are required to be disclosed for each reportable segment, and
- whether material items of income and expense disclosed under IFRS Accounting Standards other than IFRS 18 are required to be disclosed for each reportable segment.

The IFRIC concluded in respect of these questions that no standard setting was needed and published an agenda decision in July 2024, which has subsequently been updated in January 2026 for IFRS 18 references.

Regarding the first question, the IFRIC concluded that in accordance with IFRS 8, specified amounts of revenue and expenses are required to be disclosed for each reportable segment. Disclosures are required if those amounts:

- are included in the measure of segment profit or loss reviewed by the CODM even if those amounts are not separately provided to or reviewed by the CODM, or
- are not included in the measure of segment profit or loss reviewed by the CODM but are regularly provided to the CODM.

In relation to the second and third questions, the IFRIC concluded that IFRS 8 does not require disclosures for each item of income and expense for each reportable segment that is presented in the statement of profit or loss or disclosed in the notes. To determine which material items of income and expense should be disclosed for each reportable segment, entities should exercise judgement and:

- apply IFRS 18's definition of 'material information' to assess whether an item of income or expense is material for the financial statements taken as a whole
- apply the principles of aggregation and disaggregation specified in IFRS 18
- assess whether the information is material, by considering qualitative, quantitative factors or both, and
- consider examples of income and expenses set out in IFRS 18 that might have sufficiently dissimilar characteristics to warrant separate disclosure.

Prior to the IFRIC's agenda decision, diversity in practice existed in relation to the interpretation of material items of income and expense in the context of segmental reporting. One of the common interpretations was that material items were limited to unusual or non-recurring items. However, the IFRIC concluded that an item can be material without being unusual. Consequently, in our view, the IFRIC's agenda decision is important as it sets out clear guidance for reporting entities to consider when preparing segmental disclosures, which results in more consistent interpretation of the IFRS 8 requirements.

Example 1 – Disclosure of depreciation and amortisation expense when the CODM uses EBITDA to assess segment results

The CODM evaluates the performance of the entity's segments based on earnings before interest, income taxes, depreciation and amortisation (EBITDA).

Included in the management reports reviewed by the CODM are summaries of depreciation and amortisation expense related to each of the segments, even though these amounts are not allocated within the segment results reported.

No allocations of interest or income taxes are made and only entity-wide amounts for these items are reported to the CODM.

Should the segment amounts for interest, income taxes, depreciation and amortisation be separately disclosed in accordance with IFRS 8?

Analysis

Although in this example, depreciation and amortisation expense is not included in the measure of segment profit or loss that is reviewed by the CODM, such amounts are included in the information pack. Therefore, disclosure of depreciation and amortisation expense by each reportable segment is required.

However, as no segment information on interest or income taxes is provided to the CODM, no amounts for these items need be disclosed.

Example 2 – Disclosure of restructuring expense when the CODM uses EBITDA to assess segment results

The CODM evaluates the performance of the entity's segments based on EBITDA.

The restructuring expense is included in the calculation of EBITDA but is not separately provided to the CODM for review.

The entity discloses the total restructuring expense in the notes to the financial statements.

Should the segment amounts for the restructuring expense be separately disclosed in accordance with IFRS 8?

Analysis

Although in this example, the restructuring expense is not separately reviewed by the CODM, it is included in the measure of segment profit or loss reviewed by the CODM. Therefore, judgement should be exercised to determine whether it is a 'material item' of expense to be disclosed for each reportable segment based on the considerations listed in the IFRIC agenda decision.

IFRS 8 does not require segment amounts to be disclosed for each expense disclosed in the notes, but if the restructuring expense is determined to be material for the financial statement taken as a whole, then it needs to be disclosed separately for each reportable segment.

Disclosures for non-reportable segments

Information about other business activities and operating segments that are not separately reportable (after all preceding stages of aggregation and identification of reporting segments have been performed) is then combined and disclosed in an 'all other segments' category. A description of the sources of revenue included in this category is required by IFRS 8.

Disclosure of measurement policies

As noted in the quantitative information paragraphs above, IFRS 8 requires disclosure of segment information based on amounts reported to the CODM. Information used for internal management reporting purposes varies widely from entity to entity. For example, the CODM may use profit figures that exclude certain items such as reorganisation costs, non-recurring or unusual items and fair value changes. CODMs in some entities may rely primarily on cash flow-based results.

In developing IFRS 8, the IASB decided that the cost of reduced comparability of information between entities was outweighed by the benefits of increased relevance of the management approach. They also recognised that, in view of the diversity of disclosure bases that arises under a management approach, some explanation and reconciliation of the segmental information would be necessary.

In addition to a numerical reconciliation between the segment measures reported and those used in the primary financial statements (see reconciliation to IFRS primary financial statements below), IFRS 8 requires an entity to disclose an explanation that enables users to understand the basis on which segmental information is measured.

The explanation should cover as a minimum:

- The basis of accounting for transactions between reportable segments, including transfer pricing policies (eg market prices, cost, or cost-plus)
- The nature of the description of the measurement basis for each reported measure of segment profit or loss, segment assets and segment liabilities, in particular the nature of any differences between these measurements and those used for the entity's reported profit or loss before income tax expense or income and discontinued operations, or assets and liabilities in the entity's statement of financial position (unless apparent from the reconciliations described below)
- The nature and effect of any changes from prior periods in the measurement methods used
- The nature and effect of any asymmetrical allocations to reportable segments, eg an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to the segment.

The numerical reconciliations described below may be sufficient to explain some of the more obvious reconciling items, such as inclusion of non-segment revenue from corporate functions that are not operating segments and exclusion of inter-segment revenue in the entity total. The narrative explanation described above may then focus on a description of other differences such as differences in accounting policies and policies for allocating centrally incurred costs or central assets and liabilities.



Reconciliation to IFRS primary financial statements

In addition to the narrative explanations described above, IFRS 8 requires disclosures to reconcile the segment items with the equivalent entity amounts.

Segment measures to be reconciled

IFRS 8 requires reconciliations of:

- the total of the reportable segments' revenues to the entity's revenue
- 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 items such as tax expense (tax income) to reportable segments, the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items
- the total of the reportable segments' assets to the entity's assets (if segment assets are reported)
- the total of the reportable segments' liabilities to the entity's liabilities (if segment liabilities are reported), and
- the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

Examples of reconciling items include:

- conversion of segment information reported on a local GAAP basis for segments
- inclusion of activities of corporate functions that are not identified as operating segments, and
- elimination of intra-segment amounts.

The actual amount of each material adjusting item should be disclosed as well as a description.

Amounts relating to the 'all other segments' category are disclosed separately from other reconciling items.

See our articles '**Insights into IFRS 8 – disclosures for annual financial statements**' and '**Insights into IFRS 8 – disclosures for interim financial statements**' for example disclosures.

How we can help

We hope you find the information in this article helpful in giving you some detail into aspects of IFRS 8. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.

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