

<b>Institution:</b> University of Dundee
<b>Unit of Assessment:</b> UoA19 Business and Management Studies
<b>Title of case study:</b> Influencing International Accounting Standards: International Financial Reporting for Business Unit and Geographic Activities
<p><b>1. Summary of the impact</b> (indicative maximum 100 words)</p> <p>Research on International Financial Reporting Standard 8 ‘Operating segments’ (IFRS8), undertaken by academics in the University of Dundee’s School of Business, has been used to frame the international debate concerning listed company reporting of disaggregated (segmental) information about business unit and geographic activities. Three bodies involved in regulation and compliance, have drawn on the research to inform their positions and strategies in relation to the standard. Firstly, the IASB’s review of IFRS8 was informed by the research. Secondly, the key findings were fed into the Financial Reporting Council’s proposals to amend IFRS8. Thirdly, the research underpinned the Institute of Chartered Accountants of Scotland’s (ICAS) response to the IASB’s request for information on how the standard was being applied, what challenges were encountered and associated costs.</p>
<p><b>2. Underpinning research</b> (indicative maximum 500 words)</p> <p>Within the School there has been a long tradition of examining the impact of financial reporting standards on the information that is communicated to those who use financial statements. Supported by funding from ICAS and the Institute of Chartered Accountants in England and Wales (ICAEW), the research team comprising of Dr Louise Crawford, Professor David Power and Professor Christine Helliar undertook research to examine the introduction and impact of IFRS8. IFRS8 was mandated for listed companies in over 120 countries from January 2009 after the International Accounting Standard Board (IASB) adopted the standard. The IASB is the independent standard-setting body for international financial reporting. It is responsible for the development and publication of IFRSs; within the EU these IFRSs are endorsed by the European Parliament for mandatory implementation by EU listed corporate entities. IFRS8 is the first standard to: (i) emerge directly from an existing US standard and adopt an approach that is based on internal management accounting, rather than external financial reporting; (ii) go through the new comitology process of the European Parliament which required the European Commission to undertake a ‘potential effects’ study prior to the standard’s endorsement into European legislation; and (iii) be subject to a post-implementation review by the IASB. Thus, the research team investigated whether specific aspects of IFRS8 have caused difficulties for preparers, users and auditors of financial information.</p> <p>An initial investigation (3.3) allowed the team to interview key stakeholders (preparers, regulators, legislators, auditors and users) about (i) any concerns that they had had during the new standard’s adoption process and (ii) their awareness of the endorsement procedure employed by the European Union before IFRS8 was approved. During consultations about the new standard, concerns had been expressed in the financial press about the fact that IFRS8 would (i) allow operating segments to be identified internally by management without reference to pre-determined criteria, (ii) no longer require geographic segmental disclosures to be published, (iii) mandate the publication of new information termed “entity-wide disclosures” and (iv) introduce the concept of the chief operating decision maker (CODM) into the IASB’s accounting standards (prior to IFRS8, the term had only appeared in US accounting standards). The research team found that, although IFRS8 appeared to be a controversial standard in terms of the lobbying that took place and the EU consultation process employed, this was not the case according to most of those interviewed. Most respondents saw the introduction of the management approach for identifying operating segments as unproblematic. However, the interviewees were concerned that IFRS8 was too much like its US counterpart in terms of the approach adopted and the terminology used. In addition, concerns were expressed that annual reports prepared under IFRS8 might contain non-GAAP information for segments and that disaggregated information in financial disclosures would not reconcile with aggregate figures reported in the main financial statements. There was also some uncertainty over the meaning and identity of the CODM since IFRS8 did not require this individual or ‘function’ to be</p>

identified in the financial statements. In a follow-up study (funded by ICAS, 3.2), the team analysed the first sets of financial statements produced under IFRS8 for a sample of UK listed companies to investigate whether the introduction of the new accounting standard had led to any changes in the segmental disclosures that companies provided. The findings from this study extended the research. Despite concerns that the introduction of IFRS8 would lead to a reduction in the amount of disaggregate information provided by listed companies, the average number of business units for which data were supplied rose from 3.30 to over 3.56. Further, although geographic disclosures were no longer mandatory under IFRS8 (unless reviewed by the CODM), the average number of geographic segments for which information was provided also increased from 3.68 to 4.09. Nonetheless, the research indicated that there was a reduction in the percentage of companies supplying details about total liabilities, taxation as well as capital expenditure for each segment of their business.

This research, in addition to identifying a number of positive impacts of IFRS8 on financial reporting, also highlighted a number of concerns about the mandated reporting requirements in the standard (3.2, 3.3) and the process (3.1) by which the standard was developed and adopted by the IASB. The research has also been published in the professional press (3.5, 3.6) and informed further study about the impact of IFRS8 on emerging markets (3.4). Reports based on this research have included a number of recommendations to the IASB, as well as to the preparers and auditors of financial statements. The research team recommended that the IASB should issue guidance on (i) the definition and aggregation of segments and (ii) the purpose and nature of entity wide disclosures. In addition, it suggested that the IASB should consider changing the disclosure requirements in IFRS8 so that the identity of the CODM should be provided and that there should be greater consistency in the number as well as the identity of the operating segments referred to throughout the annual report.

### 3. References to the research (indicative maximum of six references)

- 3.1 L. Crawford, J.E.Ferguson, C.V. Helliar and D.M.Power. (2013). Control Over Accounting Standards within the European Union: The Political Controversy Surrounding the Adoption of IFRS 8, *Critical Perspectives on Accounting*, Online First, DOI: 10.1016/j.cpa.2013.03.001
- 3.2 L. Crawford, H. Extance, C.V. Helliar and D.M.Power (2012). *Operating Segments: The usefulness of IFRS 8*, ICAS: Edinburgh
- 3.3 L. Crawford, C.V. Helliar and D.M. Power (2010). *Politics or accounting principles: why was IFRS 8 so controversial?* The Institute of Chartered Accountants in England and Wales : London
- 3.4 Mardini, G., Crawford, L. and Power, D. (2012). The impact of IFRS 8 on disclosure practices of Jordanian listed companies. *Journal of Accounting and Emerging Economies*, 2 (1), 67-90. DOI: 10.1108/20421161211196139

### Professional articles

- 3.5 L. Crawford, H. Extance, C.V. Helliar and D.M.Power (2012). *Operating Segments: The usefulness of IFRS 8*, CA Magazine. ICAS: Edinburgh
- 3.6 L. Crawford, H. Extance, C.V. Helliar and D.M.Power (2010). *IFRS 8 adoption linked to changes in the number of segments reported*. CA Magazine. ICAS: Edinburgh

### Funding Information

L. Crawford, C. Helliar, D. Power. IFRS8: An analysis of the impact of IFRS 8 compliance on the published financial statements of UK companies: an analysis of disclosures and an investigation of user, preparer and auditor perceptions. The Institute of Chartered Accountants of Scotland - £14,070 (2010/11)

L. Crawford, C. Helliar, D. Power. IFRS8 Exploring stakeholder perceptions of the new standard and its EC endorsement process. The Institute of Chartered Accountants in England and Wales - £3,750 (2008/10)

#### 4. Details of the impact (indicative maximum 750 words)

##### Pathways to impact

After conducting the research and before the publication of the IASB's deliberations on whether to revise the standard, the team gave interim reports to the funders and disseminated early findings to several international conferences. Media interest inspired an interview with the professional press (5.1). Dr Crawford was invited to present preliminary conclusions to ICAS, and the Financial Reporting Council (FRC) invited Dr Crawford to present to an open meeting of financial statement preparers and investors as part of its outreach programme examining the impact of IFRS8 (5.2). The research was highlighted as one of ICAS's main successes in 2012 in their annual review (5.3) and a public comment was made by an IASB staff member that this was the most impressive research on IFRS 8 that they had found (5.4).

##### Informing the practitioner debate and development of the IFRS8 standard

The IASB has just completed a post-implementation review of IFRS8 and considered the findings of the University of Dundee's team in order to inform the development of the IFRS. This is the first time the IASB has undertaken a post-implementation review of a standard, and the first time that they have explicitly used the results of academic research to inform their actions in relation to reviewing and amending standards. The post-implementation review sought feedback on whether the standard was functioning as intended, as well as more practical information on the challenges and costs associated with implementing the standard.

Research from the team at the University of Dundee:

- was cited in the staff papers of the IASB meeting held in June 2012, showing that the IASB considered our research and that this research informed the post-implementation review of the standard (5.7, 5.8);
- was forwarded to the IASB and the FRC by ICAS and by the European Accounting Association;
- informed the IASB's review of IFRS8 and was used to: (i) justify existing international reporting practice and (ii) frame areas for debate over future improvements/amendments to the reporting practice (5.9);
- provided the Financial Reporting Council with key findings that informed its proposals to the IASB about amending IFRS8 (5.6);
- underpinned the ICAS's response to the IASB's request for information on how the standard was being applied (5.5)

This review of IFRS8 by the IASB based, in part, upon the findings of research from the team at the University of Dundee will have consequences for preparers of the financial statements of publicly listed companies when determining what information has to be disclosed, as well as the users who read listed companies' annual reports (for example: analysts; institutional investors; regulators; private investors). In particular, the findings of three published articles/reports including a report by staff at the University of Dundee (3.2) were discussed and summarised for the IASB (5.8). Indeed, approximately 2 of the 28 pages in the summary document for IASB board members were devoted to our results. In the light of this research, the Board were gratified that the new standard had resulted in an increase of segmental disclosures among the annual reports of listed companies. The IASB staff papers also suggested that the Board initially thought about including "an additional disclosure paragraph in IFRS8 requiring a brief description of both the operating segments that have been aggregated and the economic indicators that have been assessed in order to ensure that operating segments [include parts of a business with] 'similar economic characteristics'". In addition, the IASB has indicated that it would provide some clarity in IFRS8 about the function of the CODM and some advice about what is meant by entity-wide disclosures. Some of these possible changes were recommended in our research report (3.2), among other publications of the team, in their research findings. Thus, the research by staff at the University of Dundee appeared to have had an impact in terms of the IASB's current review of IFRS8. As a result of this review of IFRS8, regulation of segmental disclosures provided by listed companies in a majority of countries throughout the world was evaluated.

On 18<sup>th</sup> July 2013 the IASB announced the completion of the post implementation review of IFRS8

and concluded that “the standard was generally functioning as anticipated” [5.9]. The final review document [5.9], shows that our research (3.2) was used, in conjunction with feedback collected from the IASB’s public consultation and outreach programmes (5.2), to inform this conclusion. Specifically, the IASB justified keeping the standard unchanged based on our post-implementation review study (5.2). For example, the IASB noted the positive impacts of IFRS8 from the academic evidence documented by Crawford et al., among others, by highlighting that “when the number of reported segments did change, the number generally increased”; the costs of implementing were low; and preparers, auditor and standard setters supported IFRS8. Secondly, the IASB noted that the documented negative impacts of IFRS8 would be investigated further in the future as “areas for potential improvement and amendment”. These include, for example: less support for the standard from investors; lack of understanding of reconciliations; lack of clarity as to the concept CODM; and inconsistency between the management commentary and the IFRS8 disclosures. Such positive and negative interpretations draw directly from our IFRS8 research.

**5. Sources to corroborate the impact** (indicative maximum of 10 references)

- 5.1** Accountancy (December 2012), See no Evil; interview with a member of the Dundee research team on IFRS8 and the IASB post-implementation review. This corroborates claims about interest in IFRS8 among practitioners and the impact of our research on the post-implementation review of the standard.
- 5.2** Email / Letter from member of staff at the Financial Reporting Council (FRC) confirming that they invited a member of the Dundee research team to present results at its post-implementation review of IFRS 8 ‘Operating Segments’ event in October 2012.
- 5.3** ICAS Annual Review, 2012. Available at: [http://icas.org.uk/Annual\\_Review\\_and\\_Financial\\_Statements/](http://icas.org.uk/Annual_Review_and_Financial_Statements/) This document corroborated that the University of Dundee research was one of ICAS’s “Significant successes”.
- 5.4** Letter from Director of Research at ICAS corroborating that they have used the research and that a public comment was made by an IASB staff member in 2012 that this was the best research on IFRS 8 that they had found.
- 5.5** The comment letter is available on the IASB website a <http://www.ifrs.org/Current-Projects/IASB-Projects/PIR/IFRS-8/comment-letters/Pages/default.aspx> This confirms that the University of Dundee research into IFRS8 played a key role in ICAS’s submission to the IASB on the post-implementation review of IFRS8.
- 5.6** The Financial Reporting Council has made recommendations (15th October, 2012) to the IASB in response to the post-implementation review of IFRS 8, drawing on the ICAS publication of this research. The comment letter can be found at: <http://www.ifrs.org/Current-Projects/IASB-Projects/PIR/IFRS-8/comment-letters/Pages/default.aspx> This corroborates how the University of Dundee research informed the Financial Reporting Council’s submission.in terms of the evidence that they supplied and the recommendations that they made.
- 5.7** IFRS IASB Agenda Ref 12B Staff paper, (June 2012): Post implementation review of IFRS 8 – Review of academic literature, available at: <http://www.eiasm.org/userfiles/IFRS8-0612b12B-AMENDED.pdf> This corroborates that (3.2) was reviewed under the heading of “Research Relevant to the Board’s Questions about the Impact of IFRS8” p.4 for the IASB.
- 5.8** IFRS IASB Agenda Ref 12C Staff paper (June 2012): Post implementation review of IFRS 8, Appendices – Summary of relevant literature to May 2012 available at: <http://www.eiasm.org/userfiles/IFRS8-0612b12C-AMENDED.pdf>. This corroborates that (3.2) was one of the three published documents reviewed for the IASB.
- 5.9** The IASB post implementation review of IFRS 8. The IASB (2013) report is available at: <http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-completes-Post-implementation-Review-of-IFRS-8-Operating-Segments-July-2013.aspx>. This corroborates that the results in (3.2) were used to justify no major revision to IFRS8; in addition, the issues raised in (3.2) were flagged as topics for review in the future.
- 5.10 Contact:** Technical Manager, International Accounting Standards Board.