

# The Adoption of IFRS 8 and the Relevance of Segment Reporting Changes

Pedro N. Pardal (ESCE - Setúbal Superior School of Business Management)

The disclosure of financial information by segments has been, in the new century, a matter of discussion under the convergence project between the IASB and FASB. This joint convergence project led to the approval of IFRS 8 – “Operating Segments” in December 2006, by the IASB. In the new standard, the IASB changes its approach for the identification of firms’ segmentation structure. IFRS 8 should follow the approach advocated by the FASB in its standard, SFAS 131 (1997) – “Disclosures about Segments of an Enterprise and Related Information”. Thus, all entities applying IAS/IFRS should now establish their segment reporting structure in accordance with the “Management Approach” which states that the structure of segment reporting should be coincident with the way segments are presented in internal information system to the board of directors for their decision. The adoption of "Management Approach" by the IASB induces, among other things that this approach will contribute to more relevant segment information. The IASB believes that implementation of IFRS 8 to replace IAS 14 (1997), will result in several changes on segment reporting, such as, more disclosed information (number of segments and number of items by segment), reduce costs for producing segment information, and will contribute to a better consistency between segment information contained in Financial Statements and the information disclosed in the Management Report.

The main objective of this research is to analyze the adoption of IFRS 8 in European Union countries, and since its mandatory adoption was set for the financial statements of 2009, this research should be one of the first studies about segment disclosures under the new standard and should provide a light on the efficiency of the “Management Approach” in improving segment information. At a first stage of investigation, a profound literature review about financial information by segments was made. In this work different streams of investigation were identified and characterized by their objectives, methods and results. In the performed literature review, evidence of upcoming changes was also identified and analyzed.

From literature review and standards analysis three main research questions were established. First, the investigation will focus on detailed segment reporting practices in European Union firms with the adoption of IFRS 8. Next, differences between segment reporting under the IFRS 8 and the predecessor IAS 14 should be identified. Finally, tests will be made in order to analyze if those changes are associated with firms’ country and industry characteristics and behaviour on disaggregating financial information.

## Correspondence Details

Professor Pedro N. Pardal  
ESCE- IPS  
Estefanilha  
2914-503 Setúbal  
Portugal

Email: [ppardal@esce.ips.pt](mailto:ppardal@esce.ips.pt)