

SWITCHING TO IFRS 8 AND ITS IMPACT ON THE TURKISH LISTED COMPANIES

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ABSTRACT

The International Accounting Standards Board (IASB) issued IFRS 8 Operating Segments, on 30 November 2006. This standard is effective for periods beginning on or after 1 January 2009. IFRS 8 is a disclosure standard replacing IAS 14. The core principle of IFRS 8 is stated as follows: "An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates." An important point to be mentioned is that IFRS 8 introduces "management approach", which means that the defining of segments as well as the preparation of information used for segment reporting is based on information prepared for internal management decisions. The findings of the research indicates that switching to IFRS 8 did not cause major changes in segments reported and segmental information provided by Turkish listed companies in ISE 30 Index. The findings also demonstrate that the Turkish listed companies behave conservatively in making major changes in segment reporting. Further research can be conducted on identifying the factors, which may potentially influence adopting IFRS 8 for segment reporting. The potential relationship between segment reporting and factors such as firm size, free float rate, etc. may also be examined.

Keywords: IFRS 8, Segment Reporting, Turkish Listed Companies, Istanbul Stock Exchange

ÖZET

UFRS 8'E GEÇİŞ VE HALKA AÇIK ŞİRKETLERE ETKİSİ

Uluslararası Muhasebe Standartları Kurulu (UMSK) Uluslararası Finansal Raporlama Standardı (UFRS) 8: Faaliyet Bölümleri'ni 20 Kasım 2006 tarihinde yayınlamıştır. Bu standart 1 Ocak 2009'dan itibaren veya sonrasında başlayan dönemler için geçerli olacaktır. UFRS 8 bir açıklama standardıdır. UFRS 8'in temel prensibi şu şekilde ifade edilir: "Bir işletme, finansal tablo kullanıcılarının, işletmenin gerçekleştirdiği faaliyetler ile faaliyette bulunduğu ekonomik ortamın niteliğini ve finansal etkilerini değerlendirmelerini mümkün kılan bilgileri açıklar." Belirtilmesi gereken önemli bir husus UFRS 8'in faaliyet bölümlerinin belirlenmesinde ve aynı zamanda bölümsel raporlamada kullanılan bilgilerin hazırlanmasında işletme içi yönetim kararlarında kullanılan bölümlere dayanan "yönetim yaklaşımı"ni getirmesidir. Araştırmanın bulguları, UFRS 8'e geçmenin İstanbul Menkul Kıymetler Borsası 30 Endeksi'ndeki şirketlerin belirlediği bölümler ve hazırladığı bölümsel raporlarda önemli bir değişikliğe yol açmadığını göstermektedir. Bulgular aynı zamanda Türk şirketlerinin bölümsel raporlamada değişiklik yapmada tutucu davrandıklarını göstermektedir. Konu ile ilgili olarak UFRS 8'e göre bölümsel raporlama yapmada etkisi olabilecek faktörlerin belirlenmesi hakkında gelecekte çalışmalar yapılabilir. Bölümsel raporlama ve şirket büyüklüğü, halka açıklık oranı gibi faktörler arasındaki potansiyel ilişki incelenebilir.

Anahtar Kelimeler: UFRS 8, Bölümsel Raporlama, Türk Halka Açık Şirketler, İstanbul Menkul Kıymetler Borsası

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1. INTRODUCTION

The International Accounting Standards Board (IASB) issued IFRS 8 Operating Segments, on 30 November 2006. This standard is effective for periods beginning on or after 1 January 2009. IFRS 8 is a disclosure standard replacing IAS 14. IFRS 8 is the outcome of a short-term convergence project with the US Financial Accounting Standards Board (FASB) and results from the IASB's comparison of IAS 14 with the US Statement of Financial Accounting Standards No. 131 (SFAS 131) *Disclosures about Segments of an Enterprise and Related Information* (Bryois, 2008). The core principle of IFRS 8 is stated as follows: "An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates." An important point to be mentioned is that IFRS 8 introduces "management approach", which means that the defining of segments as well as the preparation of information used for segment reporting is based on information prepared for internal management decisions.

The remainder of this study organised into six sections. The first section briefly explores segment reporting and related standards. The second section provides information about the adoption of IFRS 8. The third section highlights the main differences between IFRS 8 and IAS 14 and criticism on IFRS 8. The fourth section describes the research setting and methodology. The next section reports the findings of the study while in the last section conclusions are presented.

2. Segment reporting

Where financial statements are an amalgam of various activities in different locations, the overall results and net assets are disclosed when the financial statements are consolidated. However, performance of the various activities and of various locations may be impossible to ascertain (Tiffin, 2005: 186).

Many large companies are "conglomerate" enterprises (i.e. they are involved in a number of distinct industries or types of business operation) or multinational corporations operating in several different countries or regions that have different economic and political characteristics. Understanding

the past and potential performance of the enterprise as a whole requires an understanding of the separate component parts (Alexander, Nobes, 2005: 130).

A segment is a part or activity of an organization about which managers would like cost, revenue, or profit data. Examples of segments include divisions of a company, sales territories, individual stores, service centers, manufacturing plants, marketing departments, individual customers, and product lines (Garrison, Noreen, 2003: 527). Segments have become more important in understanding and evaluating corporate performance as a result of globalization.

Since the various parts of conglomerate and multinational enterprises are susceptible to different influences, it is quite likely that some components will be doing better than others, and that the risks – and potential – will be significantly different. It follows that it is not possible to appraise the position, progress and prospects of a whole enterprise without some separate information about the major components (Alexander, Nobes, 2005: 130).

Segment reporting is reporting the financials and other relevant information related to segments of an organization.

2.1. Regulations of FASB Related to Segment Reporting

One of the first regulations related to segment reporting was the SFAS No. 14 Financial Reporting for Segments of a Business Enterprise, which was published by Financial Accounting Standards Board (FASB) in November 1976 (U.S. GAAP Web Site). This standard was superseded by SFAS No. 131 Disclosures about Segments of an Enterprise and Related Information, in June 1997.

The reason for this change was that many companies were not providing expected segment information, and FASB has replaced SFAS No. 14 with SFAS No. 131. Under this standard, segments are defined from a management perspective-how management organizes segments within the enterprise for making decisions and assessing performance. Under SFAS No. 14, segments were defined by industry grouping of products and services sold to external customers. Under SFAS No. 131, segments are defined from a management approach perspective-how

management organizes segments within the enterprise for making decisions and assessing performance. Consequently, segments are evident from the structure of the enterprise's internal organization. The internal organization is based on divisions, departments, subsidiaries, and other internal units the chief operating decision maker uses to make operating decisions and to assess an enterprise's performance. Referring to a hierarchical organizational chart should provide guidance in identifying the operating segments (Albrecht and Chipalkatti, 1998: 1).

According to SFAS 131, an enterprise component qualifies as an operating segment if

- it engages in business activities that may or may not earn revenues or incur expenses,
- its operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- discrete financial data are available.

The chief operating decision maker may be the chief executive officer, chief operating officer, president, or even a committee that collectively performs the function of allocating resources and assessing performance of the enterprise's components. An operating segment manager's area of responsibility and authority may be defined by industry grouping, geographic area, functional expertise, or contingent organizational needs (Albrecht and Chipalkatti, 1998: 2).

Under the SFAS 131, segmented reports prepared for external users must use the same methods and definitions that the companies use in internal segmented reports that are prepared to aid in making operating decisions. This is a very unusual requirement, because companies are not ordinarily required to report the same data to external users that are reported internally for decision making purposes (Garrison, Noreen, 2003: 539).

Research concluded that by increasing information disaggregation, SFAS 131 encouraged companies to reveal previously "hidden" information about their diversification strategies (Nichols, Street, 2007, 56).

2.2. Regulations of IASB Related to Segment Reporting

IASB issued three standards related to segment reporting; IAS 14, IAS 14 Revised and IFRS 8. In this section brief information about these standards is provided.

2.2.1. IAS 14 and IAS 14 Revised

The IASC issued IAS 14 *Reporting Financial Information by Segment* in August 1981. The standard required that companies disclose sales, profits, and identifiable assets for each significant line of business and geographic segment.

The dominant source and nature of an entity's risks and returns should govern whether its primary reporting format should be business or geographical segments. If they are affected predominantly by differences in the products/services it produces, then its primary format should be business segments with secondary information being reported geographically, and vice versa (Kirk, 2005: 263).

Unfortunately, IAS 14 (like the U.S. SFAS 14) allowed managers to exercise considerable judgment in determining what was significant. The standard was further criticized for permitting alternative interpretations in an effort to appease the IASC's diverse constituencies (Nichols, Street, 2007: 53). So this standard was revised and published as IAS 14 Segment Reporting in August 1997.

IAS 14R adopts a two-tier approach to reporting segment information, requiring companies to report both products/services and geographic segments. As stated in paragraph 28 of IAS 14R, for most entities, the predominant source of risk and returns determines how the entity is organized and managed. An entity's organizational and management structure and its internal financial reporting system normally provide the best evidence of the entity's predominant source of risks and returns for purpose of its segment reporting. Therefore, except in rare circumstances, an entity will report segment information in its financial statements on the same basis as it reports internally to top management (Nichols, Street, 2007: 54).

2.2.2. IFRS 8

IAS 14 was criticised because it required companies to provide segment information based on

products/services and/or geographical locations but these information did not to be consistent with the segments, which were used as management's decision making criteria.

In order to provide to decision makers with useful information related to segments, IASB published IFRS 8 and IAS 14 ceased to be in effect on 31 December 2008. This standard is an outcome of a joint short-term project with the objective of reducing differences between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (US GAAP).

3. Adoption of IFRS 8

International Financial Reporting Standard 8 *Operating Segments* sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

IFRS 8 is applied to the separate or individual financial statements of an entity, whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and the consolidated financial statements of a group with a parent whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market including local and regional markets), or that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

IFRS 8 will be applied in the annual financial statements for periods beginning on or after 1 January 2009. Earlier application is permitted, but it must be disclosed.

3.1. Operating Segments and Aggregation

IFRS 8 defines an operating segment as follows: 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 regularly reviewed 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. An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

Under IFRS 8, an operating segment should be reported separately if segment has been identified in accordance with operating segments paragraphs 5–10 of the standard or results from aggregating two or more of those segments in accordance with paragraph 12, and exceeds the quantitative thresholds in paragraph 13.

Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this IFRS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:

- (a) the nature of the products and services;
- (b) the nature of the production processes;
- (c) the type or class of customer for their products and services;
- (d) the methods used to distribute their products or provide their services; and
- (e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

3.2. Quantitative Thresholds

An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds: (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments. (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined

reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss. (c) Its assets are 10 per cent or more of the combined assets of all operating segments. Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

3.3. Disclosure

IFRS 8 requires an entity to disclose; factors used to identify the entity's operating segments, including the basis of organisation (for example, whether management organises the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether segments have been aggregated), and types of products and services from which each reportable segment derives its revenue.

Under IFRS 8, an entity discloses the following for each period for which a statement of comprehensive income is presented:

(a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated), and types of products and services from which each reportable segment derives its revenues,

(b) information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement,

(c) reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts.

4. Switching to IFRS 8 from IAS 14: Differences and Criticism

IFRS 8 brings important changes in segment reporting. These changes are summarized below:

Table 1: The Differences between IAS 14 and IFRS8

	IFRS 8	IAS 14
Identifying Segments	<ol style="list-style-type: none"> 1. Management approach identify «operating segments» based on the management reporting structure of the entity based on internal financial reports provided to the «chief operating decision maker» 2. A component of an entity that sells to other operating segments of the entity will meet the definition of an operating segment. 	<ol style="list-style-type: none"> 1. Risks and rewards approach business and geographical segments primary and secondary segments. 2. Limited reportable segments to those that earn a majority of revenue from sales to external parties.
Measurement	<ol style="list-style-type: none"> 1. Amount of each operating segment item to be the measure reported to the «chief operating decision maker». 2. Explanation of how segment profit or loss, assets and liabilities are measured for each reportable segment. 	<ol style="list-style-type: none"> 1. Operating segment amount is determined in conformity with the accounting policies. 2. Definition of segment revenue, expense, operating result, assets and liabilities.
Disclosure	<ol style="list-style-type: none"> 1. Factors used to identify the operating segments. 2. Types of products and services. 3. Interest revenue, separately from interest expense. 4. Information about products and services; geographical areas; and major customers. 	<ol style="list-style-type: none"> 1. Specified information of its primary segments. 2. Industry or geographical information only for secondary segments.

(Source: Bryois, 2008: 652)

In addition to these, because of changes made to IAS 34 *Interim Financial Reporting* by IFRS 8, more segment information is now required in interims than it was the case before (European Commission, 2007).

The European Financial Reporting Advisory Group (EFRAG) stated that “it is in the European interest to adopt IFRS 8 and, accordingly, EFRAG recommends its adoption.” (Holmquist, 2007)

The IFRS 8 were also criticised, especially in European countries. A report presented to the ECON Committee stated that compared with what is provided under the IAS 14, the management approach on which IFRS 8 is based is not accompanied by sufficient safeguards to ensure that segments reflect economic reality and convey a proper understanding of risks. There are no requirements to make segment information consistent with consolidated information, which may negatively impact the value of the former and geographical information is likely to be lost. This report mentions that IFRS 8 should not be adopted without additional requirements (Veron, 2007).

In Turkey, few studies were conducted related to IFRS 8. Ozturk examined IFRS 8 and compared with the former standard IAS 14. In addition, examples related to IFRS 8 for Turkish accounting applications were given in the context of its American equivalent SFAS 131. This study concludes that the determination of operating and reportable segments within the framework of the “management approach” and providing detailed information in the disclosures of financial statements on the operating segments is important (Ozturk, 2008: 172).

Omurbek and Ozdemir investigated that financial statements practices of operating segments and especially geographic segmentation in financial statements of ISE 100 firms, depending on those firms market values and size of paid-in capitals. Their research concluded that there is significant relationship between segment reporting and “market value and size of paid-in capitals” (Omurbek & Ozdemir, 2009: 210).

Poroy compared IAS 14 and IFRS 8 and discussed possible effects of IFRS 8. She argues that IAS 14 was easier to use than IFRS 8 and IFRS 8 could create difficulties in segment reporting (Poroy, 2008: 185).

5. Research Setting and Methodology

The aim of this study is to examine and demonstrate the effect of switching to IFRS 8 on Turkish listed companies. For this purpose the listed companies on Istanbul Stock Exchange 30 Index as of 31 December 2008 were selected and the disclosures of their financial statements as of 31 December 2008 and 31 March 2009 were analyzed with respect to segment reporting.

The data collected was restricted with the following issues:

Information Obtained from Financial Statements 31 December 2008

- 1 Segment Reporting in 2008
- 2 Voluntary Implementation of IFRS 8
- 3 Segment Reporting according to IAS 14
- 4 Reporting Geographical Segments
- 5 Reporting Business Segments

Information Obtained from Financial Statements of 31 March 2009

- Reporting Different Segments after Switching to
 - 1 IFRS8
 - Explaining Factors in Determining Segment
 - 2 Reporting
 - Types of products and services from which each
 - 3 reportable segment derives its revenues
 - 4 Reconciliation
 - 5 Assets/Liabilities/Revenues/Expenses of Segments
 - 6 Reporting Business Segments
 - 7 Reporting Geographical Segments
 - 8 Information about Major Customers
-

The data gathered from the financial statements and disclosures. I evaluated and codified the data as follows: If relevant information related to the items is provided in the disclosures and the answer is “yes”, then “a point” is assigned to the item. Otherwise, the item gets “zero” point. I assumed that if there is no information related to the item the answer is “no” so the item also gets “zero” point. The points for each item are summed up. Each item can theoretically score a maximum of 30 points since the study covers 30 companies. Then, these totals are divided by the total number of companies so that a percentage is calculated for each of the above mentioned items.

6. Findings

The financial statements of 31 December 2008 reveal that 25 companies utilize segment reporting, 5 companies reported that they do not need to report segmented information. Of these 25 companies, 23 of them used IAS 14, only 2 of them preferred early adoption of IFRS 8. 16 companies reported only business segments, 3 companies reported only geographical segments, 6 companies reported both business segments and geographical segments.

Table 2: Findings from Financial Statements of 31 December 2008

	Segment Reporting in 2008	Voluntary Implementation of IFRS 8	Segment Reporting according to IAS 14	Reporting Geographical Segments	Reporting Business Segments
AKBANK	√	-	√	√	√
AKSİGORTA	-	-	-	-	-
ARÇELİK	√	-	√	√	√
ASYA KATILIM BANKASI	√	-	√	-	√
BAGFAŞ	√	-	√	√	-
DOĞAN HOLDİNG	√	√	-	-	√
DOĞAN YAYIN HOL.	√	-	√	√	√
EREĞLİ DEMİR ÇELİK	-	-	-	-	-
GARANTİ BANKASI	√	-	√	-	√
GSD HOLDİNG	√	-	√	-	√
T. HALK BANKASI	√	-	√	-	√
HÜRRIYET GZT.	√	-	√	√	-
İŞ BANKASI	√	-	√	-	√
İŞ GMYO	-	-	-	-	-
KOÇ HOLDİNG	√	-	√	-	√
KARDEMİR	-	-	-	-	-
MİGROS	√	-	√	√	-
PETKİM	-	-	-	-	-
SABANCI HOLDİNG	√	-	√	-	√
ŞİŞE CAM	√	-	√	√	√
ŞEKERBANK	√	-	√	-	√
TURKCELL	√	-	√	√	√
T.EKONOMİ BANK.	√	-	√	-	√
TÜRK HAVA YOLLARI	√	-	√	-	√
TEKFEN HOLDİNG	√	√	-	√	√
T.S.K.B.	√	-	√	-	√
TÜRK TELEKOM	√	-	√	-	√
TÜPRAŞ	√	-	√	-	√
VAKIFLAR BANKASI	√	-	√	-	√
YAPI VE KREDİ BANK.	√	-	√	-	√
TOTALS	25	2	23	9	22

Table 3a: Findings from Financial Statements of 31 March 2009

	Reporting Different Segments after Switching to IFRS 8	Explaining Factors in Determining Segment Reporting	Types of products and services from which each reportable segment derives its revenues	Reconciliation
AKBANK	-	√	√	√
AKSİGORTA	-	-	-	-
ARÇELİK	-	√	√	√
ASYA KATILIM BANKASI	-	√	√	√
BAGFAŞ	-	√	-	-
DOĞAN HOLDİNG	-	√	√	√
DOĞAN YAYIN HOL.	-	√	√	√
EREĞLİ DEMİR ÇELİK	-	√	-	-
GARANTİ BANKASI	-	√	√	√
GSD HOLDİNG	-	√	√	√
T. HALK BANKASI	-	√	√	√
HÜRRIYET GZT.	-	√	√	√
İŞ BANKASI	-	√	√	√
İŞ GMYO	-	-	-	-
KOÇ HOLDİNG	-	√	√	√
KARDEMİR	-	-	-	-
MİGROS	-	√	√	√
PETKİM	-	-	-	-
SABANCI HOLDİNG	√	√	√	√
ŞİŞE CAM	-	√	√	√
ŞEKERBANK	-	√	√	√
TURKCELL	√	√	√	√
T.EKONOMİ BANK.	-	√	√	√
TÜRK HAVA YOLLARI	-	√	√	√
TEKFEN HOLDİNG	-	√	√	√
T.S.K.B.	-	√	√	√
TÜRK TELEKOM	-	√	√	√
TÜPRAŞ	-	√	√	√
VAKIFLAR BANKASI	-	√	√	√
YAPI VE KREDİ BANK.	-	√	√	√
TOTALS	2	26	24	24

The financial statements of 31 March 2009 reveal that 25 companies utilize segment reporting. However, 26 companies explained factors that are used in segment reporting, because one company, Ereğli Demir Çelik, explained factors that may be used in segment reporting, but it does not utilize segment reporting. Only 2 companies changed their reporting segments after switching IFRS 8, the other 23 companies used the same segments like the segments under IAS 14.

Of the 25 companies, 24 companies reported types of products and services from which each reportable segment derives its revenues. 24 companies explained the reconciliation required by the Standard.

Table 3b: Findings from Financial Statements of 31 March 2009

	Assets/ Liabilities/ Revenues/ Expenses of Segments	Reporting Business Segments	Reporting Geographical Segments	Information about Major Customers
AKBANK	√	√	-	-
AKSİGORTA	-	-	-	-
ARÇELİK	√	√	√	-
ASYA KATILIM BANKASI	√	√	-	-
BAGFAŞ	√	-	√	-
DOĞAN HOLDİNG	√	√	-	-
DOĞAN YAYIN HOL.	√	√	√	-
EREĞLİ DEMİR CELİK	-	-	-	-
GARANTİ BANKASI	√	√	-	-
GSD HOLDİNG	√	√	-	-
T. HALK BANKASI	√	√	-	-
HÜRRİYET GZT.	√	-	√	-
İŞ BANKASI	√	√	-	-
İŞ GMYO	-	-	-	-
KOÇ HOLDİNG	√	√	-	-
KARDEMİR	-	-	-	-

MİGROS	√	-	√	-
PETKİM	-	-	-	-
SABANCI HOLDİNG	√	√	-	-
ŞİŞE CAM	√	√	√	-
ŞEKERBANK	√	√	-	-
TURKCELL	√	-	√	-
T.EKONOMİ BANK.	√	√	-	-
TÜRK HAVA YOL- LARI	√	√	-	-
TEKFEN HOLDİNG	√	√	√	-
T.S.K.B.	√	√	-	-
TÜRK TELEKOM	√	√	-	-
TÜPRAŞ	√	√	-	-
VAKIFLAR BANKA- SI	√	√	-	-
YAPI VE KREDİ BANK.	√	√	-	-
TOTALS	25	21	8	0

All of the 25 companies reported assets, liabilities, revenues and expenses related to segments. 17 companies reported only business segments, 4 companies reported only geographical segments, 4 companies reported both business segments and geographical segments. Two companies, Akbank and Turkcell, which reported both business and geographical segments in 31 December 2008 financial statements, reported one segment in 31 March 2009 financial statements. Akbank dropped geographical and Turkcell dropped business segment reporting. In addition, companies did not report any information related to major customers.

7. Conclusions and Future Research

The implementation of IFRS 8 for periods beginning on or after 1 January 2009 brought material changes to segment reporting. As a result of harmonization efforts between IFRS and US GAAP, the IFRS 8 is adopted from SFAS 131 except for minor differences. The most important challenge brought by IFRS 8 is the “management approach” in segment reporting which seems to be controversial, because unlike the other IFRSs this standard requires disclosure of internal information used in decision making by managers. This standard is unique from this point and

is different from other standards. One criticism on this standard is that the listed companies may be reluctant to disclose segment information as required by the standard and instead of this they may continue to use same segments as reported under IAS 14.

The IASB has indicated that, at a future date, it will re-address the scope of IFRS 8. In the Exposure Draft that preceded the standard (ED 8), the Board proposed extending the scope to all entities that have public accountability, rather than just entities whose securities are publicly traded. The IASB noted that it was premature to adopt the proposed definition of public accountability that is being considered in the separate project on IFRS for private entities (previously referred to as IFRS for small and medium-sized entities). However, the Board decided that a future amendment of the scope of IFRS 8 should be proposed to include publicly accountable entities once the definition has been properly developed in the IFRS for private entities project. The importance of this standard is therefore likely to increase in the future.

The findings of the research indicates that switching to IFRS 8 did not cause major changes in segments reported and segmental information provided by Turkish listed companies in ISE 30 Index. The findings also demonstrate that the Turkish listed companies behave conservatively in making major changes in segment reporting.

Further research can be conducted on identifying the factors, which may potentially influence adopting IFRS 8 for segment reporting. The potential relationship between segment reporting and factors such as firm size, free float rate, etc. may also be examined.

Acknowledgements

I assure that this paper presents the results of a certain research conducted on ISE 30 companies.

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