

## COMMENTS ON EXPOSURE DRAFT OF ACCOUNTING STANDARD (AS) 108: SEGMENT REPORTING

Indian Accounting Standard (Ind AS) 108, Operating Segments deals with reporting about Operating Segments. As highlighted in Appendix 2, revised AS 108 is based on existing Accounting Standard (AS) 17, Segment Reporting. Ind AS 108 adopts a management-based approach for the identification of operating segments, based on internal reports regularly reviewed by the entity's chief operating decision-maker. On the contrary, Revised AS 108 requires identification of two sets of segments; one based on related products and services, and the other on geographical areas based on the risks and returns approach. One set is regarded as primary segment and the other as secondary segment. Thus, the basis for recognizing segments under Ind AS 108 and Revised AS 108 is entirely different and accordingly, Revised AS 108 is inconsistent with Ind AS 108 in this regard.

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February 2015, and as amended from time to time are applicable to the specified class of companies as per Ind AS Roadmap. Accounting Standards notified under Companies (Accounting Standards) Rules, 2021 and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. However, on the basis of the discussions held at various standard setting forums, the decision to revise Accounting Standards (AS) has been taken. Given that consistency between AS and Ind AS is important, it is my humble opinion to frame AS 108 on the basis of Ind AS 108. The following are my reasons for focusing on consistency:

1. Many foreign entities are carrying on operations through wholly owned subsidiaries in India, but those subsidiaries do not yet meet the criteria for adopting Ind AS. As such, they follow reporting under AS on account of reduced disclosures and ease of preparing financial statements under AS, even though reporting under Ind AS is an option voluntarily available to them. Accordingly, **comparability with IFRS for such entities gets affected.**
2. India is slowly becoming a start-up hub of the world. Start-ups gradually attract foreign investors, who would be more comfortable to see financial statements aligned in accordance with IFRS or at least, as close to IFRS as possible. Hence, consistency of AS with Ind AS in spirit will go a long way in making India Inc. gain much-needed **reliability in respect of financial reporting.**
3. Entities on the growth trajectory will typically meet the net worth criteria for applying Ind AS, and at that time, having financial statements aligned to Ind AS as close as possible will **make the convergence to Ind AS Reporting easier.**

Based on the above points, it is my humble suggestion to modify Revised AS 108 and bring it in line with Ind AS 108. However, the following Para of Ind AS 108 may be ignored in Revised AS 108:

1. Para 12: Aggregation Criteria
2. Para 11(a): The wordings 'or results from aggregating two or more of those segments in accordance with paragraph 12' can be deleted as Para 12 could be ignored as suggested above.
3. Paras 31-33: Entity-wide disclosures, Information about products and services and Information about geographical areas
4. Para 34: Information about major customers