GSTF Journal on Business Review (GBR) Vol.2 No.3, March 2013

Narrative Disclosures under IAS 14R and IFRS 8 by Qatar Listed Companies

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***Abstract* — The objective of this study is to compare the segmental narrative disclosures of Qatari listed companies under IFRS 8 for 2009 with narrative disclosures under IAS 14R for 2008. Specifically, the current study used a disclosure index method to capture (i) the number of segments reported; (ii) the geographic segment definitions (areas) included and (iii) the identity of the chief operating decision maker (CODM). The current study finds an increase in the number of companies disclosing segmental information while the number of business and geographic segments for which information was provided rose under IFRS 8. The geographic definitions increased under IFRS 8. It also finds that more than 60% of the sample companies determined the identity of the CODM in 2009. Thus, this research shows that IFRS 8 compliance amongst Qatar listed companies has resulted in an increase in the number of segments and segmental definitions. The findings of the current study represent a significant contribution to knowledge. Specifically, it is the first study of its kind in Qatar, exploratory in nature and adds to the growing literature on financial disclosure in general and on segmental disclosure in developing countries in particular.**

Keywords: IFRS 8, IAS 14R, IASB, Narrative Disclosures, Qatar.

I. INTRODUCTION

The International Financial Reporting Standard No. 8 (IFRS 8) issued by the International Accounting Standards Board (IASB) as a part of its convergence programme with the Financial Accounting Standard Board (FASB); this standard became effective for periods beginning on or after 1/January/2009 [1]. IFRS 8 supersedes the previous international standard: IAS 14 Revised (IAS 14R) “Segment Reporting” [2]. At the time of its adoption, concerns were raised that the identity of the CODM was not specified, disclosure of geographic segments was not mandated, and non-General Accepted Accounting Principles (GAAP) measurements were permitted for segmental information under the new standard [3].

Qatar has adopted IASs since 1999 under the prompting of the Central Bank of Qatar (CBQ) and following the adoption of securities law (Doha Securities Market Law No. 14 of 1995); this long time span makes Qatar a suitable country in which to study the implementation of IFRS 8 since preparers and users have been familiar with other IASs. Further, Qatar has an open economy with experience of international exports to many countries in different business areas; especially in the oil and gas industry. Thus, the issue of segmental reporting and compliance with IFRS 8 should be interesting to examine from Qatar listed companies’ financial statements.

The objective of this study is to assess the impact of IFRS 8 on the disclosures of Qatar-listed firms, and ascertain the extent to which segmental narrative disclosures provided under IFRS 8 in 2009 differs from segmental narrative disclosures under IAS 14R in 2008. Specifically, the empirical investigation compares the annual reports for all (41) Qatar-listed companies in 2009 prepared under IFRS 8 with the annual reports for the same sample in 2008 prepared under IAS 14R; a disclosure index approach is used to analyse segmental narrative disclosures in the financial statements of 41 Qatari companies. In addition, this study examines the extent to which Qatar-listed firms have specified the identity of the CODM in their annual reports.

II. QATAR FINANCIAL FRAMEWORK

The legal framework underpinning financial reporting within Qatar is based on a company law that dates back to the 1980s as well as on stock exchange listing requirements which were introduced in the 1990s. For instance, the Ministry of Economy and Commerce (MEC) put forward Company Law No. 11 of 1981 which required all companies to prepare two main financial statements: (i) an annual balance sheet and (ii) a profit and loss statement. However, the law was not specific about the content and format of the information to be contained into these two financial statements[1]. In 1995, the MEC issued the Doha Securities Market Law No. 14. This law was issued as a part for a proposal for establishing the Doha Securities Market (DSM); in 1997, the DSM has been established[2] [5]. As a

[1] In addition, the law mandated all companies to keep records of their financial activities; specifically, it required three main books: (i) general journal, (ii) inventory records, and (iii) a correspondence register [4].

[2] The DSM is a self-funded and administratively independent government entity. The core objective of the DSM is to support the State’s economy by providing an orderly and efficient trading process as well as providing company information to the public. In addition, it is charged with

DOI: 10.5176/2010-4804_2.3.214

result of these laws and establishment of DSM, many foreign companies [especially banks] shifted their operations to Qatar and relocated their regional headquarters to the capital city – Doha. This in turn prompted the CBQ to mandate local and foreign banks as well as finance and investment companies to comply with IASs[3]. Consequently, all listed companies in DSM must now prepare their financial statements in accordance with IASs. These financial statements must be audited by independent auditors who will review whether the listed companies' annual reports give a true and fair view of their financial positions during the fiscal year[4].

Therefore, since 1999, the CBQ has mandated the IASs be adopted within Qatar. Moreover, the country has grown rapidly and attracted many foreign investors to invest in the region. Thus, the country provides an interesting research site to study the adoption of IFRS 8 by the IASB for implementation in accounting periods on or after 2009.

III. SEGMENTAL REPORTING

Many researchers have argued that segmental reporting has been a difficult issue for standard setters [6],[7],[8]. For instance, under IAS 14R, concerns were raised about compliance with the disclosures which companies were required to make [9]. To date, research about the impact of IFRS 8 on disclosure practices of companies is relatively scarce; Crawford et al. [10] sought the views of a sample of preparers, auditors, regulators and users in 2008-2009 about the consequences of implementing IFRS 8 in Europe. They found that most interviewees considered that the absence of mandatory geographical operating segments was uncontroversial; interview responses indicated that companies would continue to publish geographic segmental information because this data would be provided to the CODM. In addition, a majority of those interviewed suggested that the introduction of the management approach for the identification of operating segments was "unproblematic".

Prior studies about the impact of IFRS 8 on emerging markets are also relatively scarce; for example, Mardini et al. [11] is one of the few studies to analyse a sample of 70 Jordanian first market listed companies. Specifically, the authors compared the segmental information disclosures of Jordanian companies under IFRS 8 for 2009 with disclosures under IAS 14R for 2008. They found that the segmental disclosures under IFRS 8 have increased compared to the information published in the previous year under IAS 14R. There was an increase in the number of companies disclosing segmental information while the number of business and geographic segments for which information was provided rose under IFRS 8. Items mandated under IAS 14R were still being provided in 2009, while additional new segmental information required (if reviewed by the CODM) under IFRS 8 was also disclosed. As a result, the total number of segmental items disclosed increased. Moreover, a majority of companies identify the CODM as the chief executive officer.

The current study examines whether the experience of Qatari companies with the new standard on segmental reporting (IFRS 8) mirrors the experience of firms in Jordan when IFRS 8 was effective. Specifically, it considers whether the quantity and quality of disclosures changed as a result of IFRS 8 being mandated or whether the concerns of academics and practitioners that IFRS 8 would lead to a reduction in segmental narrative disclosures were correct.

IV. METHODOLOGY

A. Sample

The QSE official website is used to determine the number of companies listed on the market for 2009. According to this website, companies on the DSM are grouped into four main sectors: Banking and Financial (9), Industrial (7), Insurance (5), and Services (22). Specifically, there were 43 listed companies across the four sectors at the time of this study. For the purposes of the current study, since Mazaya Company and Vodafone Qatar Company listed in 2009 and 2010 respectively, they were excluded from the sample. The final sample included 41 companies. The annual reports of the sample companies were downloaded from the websites of (i) the company (ii) the QSE or (iii) Argaam website; all reports were published in English and Arabic.

B. Disclosure Index

A spread sheet was constructed to assess the segmental narrative disclosures provided by the sample companies. In particular, this spread sheet was used to collect data on (i) the number of segments reported; (ii) the geographic segment definitions (areas) included and (iii) identity of the CODM.

An un-weighted disclosure index approach was employed in this study; this treats all financial reporting items as equally important in order to avoid any subjectivity in the analysis [14],[15],[16]. If a definition was disclosed in the financial statements of a company a value of 1 was recorded; if a definition was not disclosed it was given a value of 0.

To increase the reliability of the index used in the current research, the annual reports for the financial periods 2008 and 2009 were each read twice. This strategy was employed to ensure that the scoring was consistent and to

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monitoring listed companies for their level of financial disclosure and enforcing securities law [12]. In 2005, the DSM's name was changed to Qatar Stock Exchange (QSE) [12],[13].

[3] In fact, the CBQ required local banks to adopt IASs in preparation of their financial statements since 1992. However, there was not any legalisation for enforcement of IASs.

[4] However, Hossain and Hammami [13] argued that there is no statutory definition of a 'true and fair view' provided in any Gulf Cooperation Council company law.

avoid any mistakes with the coding before the index results were analysed and the findings examined.

V. RESULTS AND DISCUSSION

A. Segmental Narrative Disclosures under IAS 14R (2008) and IFRS 8 (2009)

For this study, the sample of Qatar companies was categorised into two groups: (i) companies that did not disclose any segmental information ("NSI" companies hereafter); and (ii) companies that disclosed segmental information ("SI" companies hereafter). The current study found that more than 70% of the sample companies provided segmental information while three more industrial companies and nine more services companies (29.3%) provided no segmental information in their financial statements for 2008. After the introduction of IFRS 8 the number of companies identifying operating segments increased to 31 compared with only 29 identifying primary and secondary segments under IAS 14R; specifically, one industrial company and one services company that provided segmental information for the first time. For the reminder of the analysis, only 31 Qatar companies were investigated since they disclosed segmental information in 2008 and/or 2009; the 10 companies that did not provide segmental information in both 2008 and 2009 were dropped from the analysis.

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The number of business segments under IFRS 8 was significantly different from that disclosed under IAS 14R; there were more segments reported under IFRS 8 (Table 1). Specifically, information for 130 business segments was disclosed in 2009 compared to 98 in 2008. Panel A of this table shows that the mean (median) number of business segments disclosed under IFRS 8 was 4.2 (4.0) per firm compared to 3.2 (3.0) per firm under IAS 14R.

According to Panel B, there was an increase in firms reporting data for 5, 6, 7 and 8 business segments under IFRS 8. In addition, there was a drop (from 2 to 0) in the number of firms publishing information for zero business segments. The combination of these two changes resulted in the increase in the mean values.

Table 1 Number of Business Segments Reported

Panel A: Average Number of Business Segments Disclosed		
	2008 (IAS 14R)	**2009 (IFRS 8)**
Total of Segments	98	130
Mean	3.2	4.2
Median	3.0	4.0
Panel B: Distribution of the Number of Business Segments Disclosed		
No. of Business Segments	**2008 (IAS 14R)**	**2009 (IFRS 8)**
Zero	2	0
One	2	1
Two	8	4
Three	9	9
Four	6	7
Five	1	3
Six	1	3
Seven	0	1
Eight	1	2
Ten	1	1
Total	**31**	**31**

Table's Note: This table shows descriptive information about the number of business segments reported by the sample of 31 Qatari companies in 2008 and/or 2009. Information for 98 business segments was disclosed in 2008, and while details for 130 business operating segments were disclosed in 2009.

Of course geographic segmental information is not mandated under IFRS 8 unless it is reviewed by the entity's CODM. Despite this relaxation in the requirements to supply geographic segmental information, Table 2 shows that the number of geographic segments actually increased to 68 under IFRS 8 compared with 61 under IAS 14R. Panel A of this table highlights that the mean (median) number of geographic segments for which information was disclosed under IFRS 8 rose to 2.2 (1.0) from 2.0 (1.0).

Table 2 Number of Geographic Segments Reported

Panel A: Average Number of Geographic Segments Disclosed		
	2008 (IAS 14R)	**2009 (IFRS 8)**
Total of Segments	61	68
Mean	2.0	2.2
Median	1.0	1.0
Panel B: Distribution of the Number of Geographic Segments Disclosed		
No. of Geographic Segments	**2008 (IAS 14R)**	**2009 (IFRS 8)**
Zero	2	0
One	17	20
Two	4	2
Three	2	2
Four	1	0
Five	4	5
Six	1	1
Seven	0	1
Total	**31**	**31**

Table's Note: This table provides descriptive information about the number of geographic segments entity-wide reported by the sample of 31 Qatari companies in 2008 and/or 2009. Information for 61 geographic segments was disclosed in 2008, and details for 68 geographic operating segments were disclosed in 2009.

The overall distribution of the number of geographic segments increased slightly upon the adoption of IFRS 8 (Table 2). It is therefore hardly surprising that the geographic segment definitions changed under IFRS 8. Table 3 [5], highlights that the number of individual country disclosures was higher for one service company which had finer definitions under IFRS 8; the number of geographic locations was boarder for one banking company. All companies disclosed "Qatar" as a geographic area in both 2008 and 2009. In other words, companies that disclosed segmental information for the first time upon the introduction of IFRS were included in the "new information under IFRS 8" group in Panel B of this table.

[5] The definition of locations and names in the table were employed by the sample companies, and represented in the table as exactly as the sample companies disclosed this segmental information in their annual reports of 2008 and 2009.

Table 3 Geographic Segment Definitions for 2008 and 2009

Panel A: Geographic Segments		
	2008 (IAS 14R)	**2009 (IFRS 8)**
General		
Qatar	29	31
International	2	1
Continents		
Europe	5	6
North America	4	5
Other	3	2
Regions		
North Africa	1	1
Other GCC Countries	7	8
Foreign Country		
Kuwait	1	1
Maldives	0	1
Oman	0	1
Palestine	0	1
Saudi Arabia	0	1
Tunisia	0	1
United Arab Emirates	2	1
United Kingdom	1	1
United States of America	1	0
Other EU Countries	1	2
Others	4	3

Panel B: Geographic Segment Definitions	
New information under IFRS 8	2
Finer under IFRS 8	1
Broader under IFRS 8	1
Same	25
Less fine under IFRS 8	1
Less broad under IFRS 8	1
Total	**31**

Table's Note: This table shows the geographic area definitions for 2008 and 2009. The "International" category refers to companies which disclosed information under this heading without providing further more disaggregation details. Finer refer to individual country disclosures. Broader refers to geographic continent or region [17]. GCC refers to Gulf Cooperation Council.

IFRS 8 does not specify the identity of the "chief operating decision maker"; it simply states that "it is not necessarily a manager with a specific title. However, it may be the chief executive officer or chief operating officer but, for example, it [also] may be a group of executive directors or other"[1].

Table 4 shows that over 60% of the SI group identified the CODM in their financial statements for 2009. From these, the majority assigned the role of the CODM to the company's chief executive officer or company's management without giving any details about whether this was a person or a committee. For instance, in the financial statements of Industries Qatar Company, the industrial company stated that "the company (group) has organized its segments and measured [performance] according to the reports that are used by the management which is the main decision maker. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment". (Annual Report, 2009, p 103).

Table 4 Details about the Identity of the CODM for the SI Group under IFRS 8

CS	CEO	%	MGT	%	BoD	%	NIP	%	T
B&F	2	22.2	2	22.2	2	22.2	3	33.3	**9**
IND	1	20.0	3	60.0	0	0.0	1	20.0	**5**
INS	1	20.0	2	40.0	0	0.0	2	40.0	**5**
SER	4	33.3	1	8.3	1	8.3	6	50.0	**12**
T	**8**	**25.8**	**8**	**25.8**	**3**	**9.6**	**12**	**38.7**	**31**

Table's Note: This table provides details about the identity of the CODM for the sample of 31 companies in their financial statements for 2009. CS refers to Company Sector, B&F refers to Banking and Financial, IND refers to Industrial, INS refers to Insurance, SER refers to Services, T refers to Total, CEO refers to Chief Executive Officer, MGT refers to Management, BoD refers to Board of Directors and NIP refers to no information provided.

Two banking companies and one service company stated that the "Board of Directors" fulfilled the function of the CODM within their organisation. One of the surprising results to emerge from Table 4 is that 12 (38.7%) companies did not provide any information about the CODM. Thus, this will effect on the usefulness of segmental information disclosed as the CODM identity might aid users of financial statements to understand the segmental information.

VI. Conclusions

The management approach according to the new standard has resulted in several improvements in the level of segmental narrative disclosures for the Qatar-listed companies. The introduction of IFRS 8 resulted in about 5% (2) of the sample companies disclosing segmental information for the first time. Moreover, IFRS 8 had a significant impact on the number of business classes and geographic segments. Moreover, the geographic locations that were employed were slightly finer for individual country disclosures and slightly broader for continents under IFRS 8. In particular, the difference was one company that disclosed finer geographic segmental information. This finding suggests that IFRS 8 did not lead to a reduction in geographic disclosures although it is not mandated.

Regarding the identity of the CODM, the findings show that many (12) Qatar-listed companies did not identify the CODM. Of the remaining companies, the function was predominantly related to reporting internally to an entity's chief executive officer or 'management'. This finding suggests that an interpretation of company performance and position 'through the eyes of management' must depend on a user's appreciation of who or what the CODM as the management's perspective.

For the current study, a number of limitations are sighted. For example, the method used involved some element of judgment about the segmental narrative disclosures; specifically, a degree of subjectivity was involved. The current study focuses on the investigation of segmental narrative disclosures rather than quantitative segmental disclosures such as the requirements (segmental items) of IAS 14R and IFRS 8.

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