

STAFF PAPER

June 2015

IASB Meeting

Project	Narrow-scope amendment: IFRS 8 <i>Operating Segments Clarifications arising from the PIR</i>		
Paper topic	Summary of due process		
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This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose

1. The purpose of this paper is to explain the steps in the due process that the IASB has taken before publication of the Exposure Draft *Clarifications arising from the Post-implementation Review* (Proposed amendments to IFRS 8 *Operating Segments*) and to ask the IASB members whether they think that the proposed amendment has been subject to adequate due process.

Structure of the paper

2. The paper is organised as follows:
 - (a) meetings when the proposed amendments to IFRS 8 have been discussed;
 - (b) background;
 - (c) summary of the proposed amendments to IFRS 8;
 - (d) effect of the proposed amendments;
 - (e) intention to dissent;
 - (f) proposed timetable for balloting and publication;
 - (g) transition arrangements; and
 - (h) confirmation of due process.

Meetings when the proposed amendments to IFRS 8 have been discussed

3. The proposed amendments arise from the post-implementation review (PIR) of IFRS 8. The findings of the PIR, which identified six areas for subsequent investigation, were discussed by the IASB at its January 2013 (Agenda Paper 6A) and March 2013 (Agenda Papers 12A-D) meetings. These findings were reported to the Due Process Oversight Committee of the Trustees in April 2013. The IASB published its Report and Feedback Statement *Post-implementation Review: IFRS 8 Operating Segments* (Feedback Statement) in July 2013.
4. The proposed amendments to IFRS 8 that resulted from the investigation of issues identified at the time of the PIR were discussed at the May 2015 meeting of the IASB (Agenda Paper 12C).

Background

5. The July 2013 Feedback Statement identified six areas for potential improvement and amendment to IFRS 8. The IASB recorded in the Feedback Statement that these areas would be researched by the staff and their findings and recommendations would be presented to the IASB.
6. In 2014, we carried out this research through further investigations on the findings reported in the Feedback Statement. We did not re-evaluate the effect of applying IFRS 8 or revise the IASB's conclusions as part of these investigations, which were limited only to those areas identified for further investigation in the Feedback Statement.
7. The objectives of the research were:
 - (a) to deepen our understanding of the issues reported in the Feedback Statement;
 - (b) to test various solutions identified during the PIR with a range of stakeholders in order to assess their effectiveness and practicability; and
 - (c) to make an assessment of the cost/benefit balance of any proposed amendments.

8. The results of these investigations were summarised and presented to the IASB at its May 2015 meeting.

Summary of the proposed amendments to IFRS 8

9. At its May 2015 meeting the IASB tentatively decided to amend IFRS 8:
- (a) to include guidance that emphasises that, when operating segments are appropriately identified in accordance with the management perspective, application of IFRS 8 facilitates the consistent description of the entity across presentations to investors, the management commentary and operating segments disclosures. This consistent description would increase the information value of each form of reporting;
 - (b) to explain that the Chief Operating Decision Maker ('the CODM') includes both individuals and committees and to emphasise that the CODM is a function that makes operating decisions;
 - (c) to require the disclosure of the nature of the entity's CODM;
 - (d) to extend the number of examples of similar economic characteristics contained in paragraph 12 of the Standard;
 - (e) to provide additional guidance about the type of information that is most useful to investors, such as information about non-cash expenses, non-recurring items and other line items that affect future cash flows;
 - (f) to require entities to explain the nature of reconciling and unallocated items more fully in the reconciliations than is currently required by the Standard; and
 - (g) to amend IAS 34 *Interim Financial Reporting* to require that an entity must present all restated interim comparative periods for the preceding year as part of its first interim report following a reorganisation.

Effect of the proposed amendments

10. Feedback from outreach conducted with the members of the International Forum of Accounting Standard-Setters (IFASS), accounting firms, investors and securities regulators indicated that there is some diversity in practice with respect to the application of IFRS 8 and that clarification about how the underlying principle of IFRS 8—identifying operating segments based on the management perspective—should be applied would be useful. The purpose of the proposed amendments is to provide that clarification.

Intention to dissent

11. Paragraph 6.9 of the *Due Process Handbook* requires that we formally ask whether any members intend to dissent from the proposals in the ED.

Comment period

12. We propose a comment period of 120 days, in accordance with paragraph 6.7 of the *Due Process Handbook*.

Proposed timetable for balloting and publication

13. The balloting process of the Exposure Draft *Clarifications arising from the Post-implementation Review* (Proposed amendments to IFRS 8 *Operating Segments*) will start in Quarter 3 2015 and its publication is scheduled for Quarter 4 2015.

Transition arrangements

14. The requirements for transition arrangements are set out in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. We think that these proposals should be applied retrospectively, because:

- (a) we do not consider that the retrospective application of the proposed narrow-scope amendments is onerous, because they deal solely with disclosure, rather than recognition or measurement;
 - (b) the proposed narrow-scope amendments clarify existing requirements rather than imposing additional requirements; and
 - (c) information about operating segments is most useful if current and prior period information is presented on the same basis.
15. We propose that early application should be permitted.
16. We considered the effects of the amendments when an entity adopts IFRS for the first time and do not think that an exemption to the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* is required.

Confirmation of due process

17. The *Due Process Handbook* sets out the due process steps that should be taken in developing a proposed amendment. We note that the required due process steps applicable to date for the publication of the proposals have been completed, as documented in Appendix A.

Questions for the IASB

1. Do any IASB members intend to dissent from the proposed amendment?
2. Do the IASB members agree with the staff recommendation that the proposals should be applied retrospectively? Do the IASB members agree that earlier application should be permitted?
3. Do the IASB members agree that no specific additional relief is required for first-time adoption?
4. Are the IASB members satisfied that all required due process steps to date that pertain to the publication of the Exposure Draft *Clarifications arising from the Post-implementation Review* (Proposed amendments to IFRS 8) have been complied with?
5. Do the staff have permission to ballot the Exposure Draft *Clarifications arising from the Post-implementation Review* (Proposed amendments to IFRS 8)?

Appendix A

Confirmation of due process steps followed in the development of the Exposure Draft *Clarifications arising from the Post-implementation Review* (Proposed amendments to IFRS 8).

The following table sets out the due process steps followed by the IASB before the publication of the Exposure Draft.

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	<p>The findings of the PIR were discussed by the IASB at its January and March 2013 meetings. The proposed amendments to IFRS 8 arising from the PIR were discussed at the May 2015 meeting of the IASB.</p> <p>An <i>IASB Update</i> was posted after each of the IASB meetings at which the topic was discussed.</p> <p>A project webpage has been maintained throughout the process.</p>
Consultation with the Trustees and the Advisory Council.	Required	<p>The Trustees (April 2013) and the Advisory Council (June 2013) were consulted about the PIR of IFRS 8 and the feedback received from that process. Because of the narrow-scope nature of the amendments it was considered to be unnecessary to consult them about the nature of the individual clarifications proposed.</p>
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	<p>This is a narrow-scope amendment and its objective is to clarify the guidance in IFRS 8.</p> <p>We assessed the likely effects of the proposed amendment as being limited, because the scope of the proposed amendment is narrow and the proposed amendment generally represents a clarification of existing requirements rather than the introduction of new requirements.</p>
Finalisation		
Due process steps reviewed by the IASB.	Required	<p>The IASB will review the due process steps in its June 2015 meeting.</p>
IASB members asked whether they intend to dissent from the proposals.	Required	<p>The IASB will be asked this question in its June 2015 meeting.</p>

Step	Required/ Optional	Actions
The ED has an appropriate comment period.	Required	The IASB proposes a comment period of 120 days, in accordance with paragraph 6.7 of the <i>Due Process Handbook</i> .
Drafting		
Drafting quality assurance steps are adequate.	Required	The editorial team will be asked to review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The translation team will be asked to review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The taxonomy team will be asked to review the pre-ballot draft.
Publication		
ED published.	Required	The ED will be made available on the public website on the publication date. The DPOC will be informed of publication.
Press release to announce publication of ED.	Required	A press release will be published announcing the ED.