

Accounting Standards Advisory Forum meeting
July 2017

Agenda Paper 5

Exposure Draft *Improvements to IFRS 8* Operating Segments

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Agenda: IFRS 8 *Operating Segments* and IAS 34 *Interim Financial Reporting*

- Purpose of the session
- Background to the proposed amendments
- Overview of the proposed amendments
- Discussion of the proposed amendments
- Next steps

Purpose of the session

We are asking for the views of ASAF members and – if possible of preparers – about **four** of the proposed amendments to IFRS 8 *Operating Segments* and IAS 34 *Interim Financial Reporting*, ie:

- Emphasise that the chief operating decision maker (CODM) makes operating decisions
- Link IFRS 8 segments with the annual reporting package
- Clarify criteria for aggregating operating segments
- Change segmentation—provide interim information earlier

Background to the proposed amendments

- The Board conducted a Post-implementation Review (PIR) of IFRS 8 and concluded that:
 - it is functioning as expected, but
 - some areas should be investigated further
- After further investigation the Board is proposing amendments to IFRS 8 and IAS 34
 - ED published 29 March 2017

Background to proposed amendments

- In proposing the amendments, the Board aims to:
 - maintain convergence with US GAAP, ie adhere to the ‘management approach’ principle
 - consider costs and benefits of proposed amendments

Overview of the proposed amendments

Overview of proposed amendments

Items for discussion are in red.

Clarify role of Chief Operating Decision Maker (CODM):

1. CODM makes operating decisions
2. CODM may be an individual or a group
3. clarify the role of non-voting members
4. CODM's identity must be disclosed
5. Link IFRS 8 segments with the annual reporting package
6. Clarify criteria for aggregation of segments
7. Clarify that additional segment disclosures can be made
8. Explain reconciling items in sufficient detail
9. Changes in segmentation—provide interim information earlier

Questions for discussion

1. Do you think the proposed clarification to the function of the CODM will help with identifying the CODM (Proposed amendment 1)?
2. Do you agree with the proposal to require disclosure of the difference between segments identified in the financial statements and segments identified in other parts of the entity's annual reporting package?
3. Do you agree with the definition of 'annual reporting package'?
4. Have you received any feedback from preparers on the proposal to 'link IFRS 8 segments with the annual reporting package' (Proposed amendment 5)?
5. Do you think the proposed clarification to the criteria for aggregation of segments will assist preparers (Proposed amendment 6)?
6. Do ASAF members agree with the proposal to restate segmental information in the interim report (Proposed amendment 9)?
7. Have you received feedback from preparers about Proposed amendment 9?

Emphasise that the CODM makes operating decisions

Proposed amendment 1

Emphasise that the CODM makes operating decisions

Issue: Feedback from the PIR indicated that preparers found it difficult to identify the CODM.

Proposed solution: Clarify that the CODM function makes operating decisions and decisions about allocating resources to, and assessing the performance of, the operating segments of an entity.

Emphasise that the CODM makes operating decisions

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Proposed amendment to IFRS 8 paragraph 7:

The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is ~~to~~ the one that makes operating decisions and decisions about allocating resources to, and assessing the performance of, the operating segments of an entity.

Question 1

Do you think the proposed clarification to the function of the CODM will help with identifying the CODM?

Link IFRS 8 segments with the annual reporting package

Proposed amendment 5

Link IFRS 8 segments with the annual reporting package

Issue: Investors and regulators expressed concern that segment information was inconsistent across an entity's communications (annual reporting package*).

Proposed solution: Require disclosure when reportable segments identified in the financial statements differ from segments in other parts of the annual reporting package.

* See Slide 17 for the definition of 'annual reporting package'.

Link IFRS 8 segments with the annual reporting package

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Financial Statements (audited)

Reportable Segments

Cars

Aeroplanes

Front part of Annual Report (unaudited)

Reportable Segments

Automobiles

Tractors

Aeroplanes-civil

Aeroplanes-military

Link IFRS 8 segments with the annual reporting package

Disclosure — IFRS 8 paragraph 22(d):

An entity shall disclose the following general information:

...

- (d) an explanation of, and the reasons for, the difference in reportable segments identified in the financial statements compared with the segments identified in other parts of the entity's annual reporting package, if there is such a difference.

Link IFRS 8 segments with the annual reporting package

Proposed definition in IFRS 8 paragraph 19B:

An entity's **annual reporting package** is a set of one or more documents that:

- a) is published at approximately the same time as the entity's annual financial statements;
- b) communicates the entity's annual results to users of its financial statements; and
- c) is publicly available, for example, on the entity's website or in its regulatory filings.

In addition to the annual financial statements, **the annual reporting package may include a management commentary, press releases, preliminary announcements, investor presentations and information for regulatory filing purposes.**

Link IFRS 8 segments with the annual reporting package

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Question 2 (paragraph 22(d))

Do you agree with the proposal to require disclosure of the difference between segments identified in the financial statements and segments identified in other parts of the entity's annual reporting package?

Question 3 (paragraph 19B)

Do you agree with the definition of 'annual reporting package'?

Question 4

Have you received any feedback from preparers on the proposal to 'link IFRS 8 segments with the annual reporting package' (Proposed amendment 5)?

Clarify criteria for aggregating operating segments

Proposed amendment 6

Clarify criteria for aggregating operating segments

Issue:

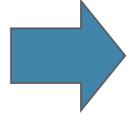
Feedback from the PIR suggested that IFRS 8 is difficult to apply when aggregating operating segments.

Proposed solutions:

- Restructure the aggregation criteria to emphasise that all requirements must be met.
- Identify operating segments as having similar economic characteristics only if they are similar across a range of measures of long-term financial performance.
- Add more examples of such measures.

Clarify criteria for aggregating operating segments

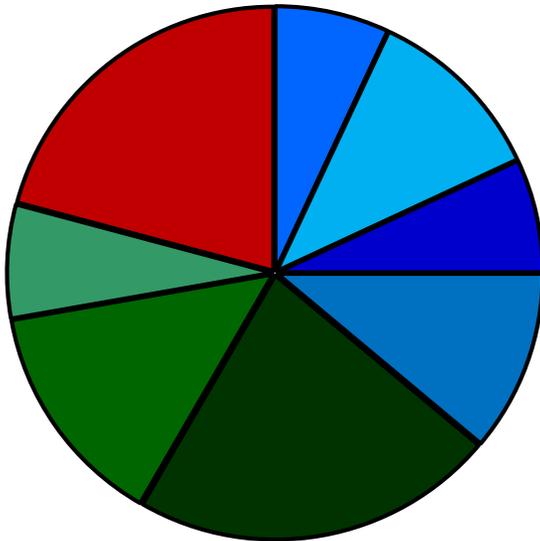
Operating segments



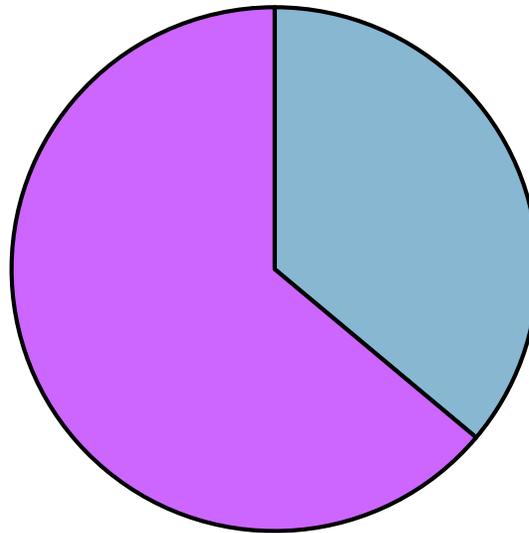
Reportable segments

Existing IFRS 8:

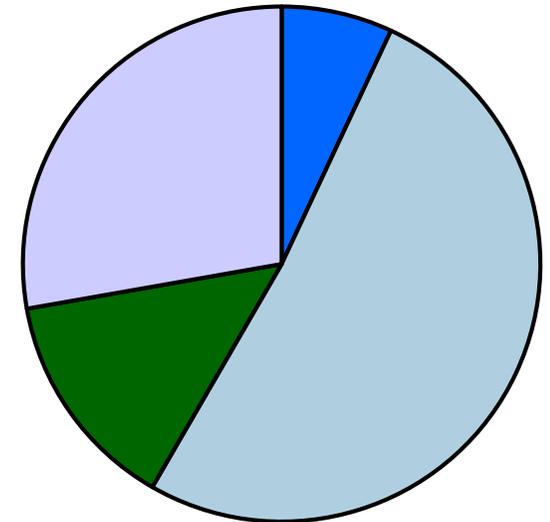
Proposed amendments:



■1 ■2 ■3 ■4 ■5 ■6 ■7 ■8



■1 ■2



■1 ■2 ■3 ■4

Clarify criteria for aggregating operating segments

Proposed amendments to IFRS 8 paragraphs 12 and 12A:

Two or more operating segments may be aggregated into a single operating segment if, and only if:

- a) aggregation is consistent with the core principle of this IFRS, described in paragraph 1;
- b) the segments have similar economic characteristics; and
- c) the segments are similar in each of the following respects:
 - i. the nature of the products and services;
 - ii. the nature of the production processes;
 - iii. the type or class of customer for their products and services;
 - iv. the methods used to distribute their products or provide their services; and
 - v. if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

Operating segments that have similar economic characteristics often exhibit similar long-term financial performance across a range of measures. Examples of such measures include similar long-term revenue growth, similar long-term return on assets or similar long-term average gross margins.

Clarify criteria for aggregating operating segments

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Question 5

Do you think the proposed clarification to the criteria for aggregation of segments will assist preparers?

Changes in segmentation— provide interim information earlier

Proposed amendment 9

Changes in segmentation— provide interim information earlier

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Issue: When an entity changes segments during the year, investors must wait until the end of the year to see the effect on comparative information.

Proposed solution: In the first interim report that follows a change in the composition of an entity's reportable segments, the entity shall present restated segment information for interim periods for both the current year and prior years, **unless** the information is not available and the cost to develop it would be excessive.

Clarify criteria for aggregating operating segments

Question 6

Do ASAF members agree with the proposal to restate segmental information in the interim report?

Question 7

Have you received feedback from preparers about this proposal?

- Comment period ends 31 July 2017
- Outreach to preparers, users, standard-setters and others during the comment period
- Resume deliberations in Q4 2017

Contact us

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