



CMAC meeting, 16 March 2017
Agenda paper AP4

Improvements to IFRS 8 arising from the post-implementation review

Discussion of proposed amendments

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board® or the IFRS® Foundation.

- Purpose of session
- Background
- Proposed amendments
 - Explain difference in segmentation
 - Clarify requirements for aggregating operating segments
 - Changes in segmentation: earlier interim information
- Next steps
- Appendix: Nine proposed amendments

These slides provide a summary of the proposals. Please see Exposure Draft, when published, for full details.

Purpose of the session

- To receive feedback on some proposed amendments to IFRS 8 *Operating Segments* and IAS 34 *Interim Financial Reporting*:

=> How effective do you think our proposals are in addressing issues identified?

Background

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Background

- IFRS 8 is converged with US GAAP equivalent guidance
- Board conducted a Post-implementation Review of IFRS 8 and concluded:
 - IFRS 8 was functioning as expected
 - but some areas should be investigated further
- Board decided, on the basis of that further investigation, to propose 9 amendments to IFRS 8 and IAS 34
- Board's objectives, in proposing amendments:
 - Maintain convergence by adhering to the underlying principle of the 'management approach'
 - Consider costs and benefits of proposed amendments

Proposed amendment

Explain difference in segmentation

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Explain difference in segmentation

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Issue: Investors and regulators expressed concern about cases in which the segment information in financial statements, management commentary and presentations are prepared on different bases.

Proposed solution: Require an explanation in the notes to the financial statements when segments identified by an entity differ between the financial statements and other parts of its annual reporting package*.

* See next page for the definition

Annual reporting package

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.

Question to CMAC members

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Question 1 to CMAC members

How effective do you think
our proposal is
in addressing the issue identified?

Clarify requirements for aggregating operating segments

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Clarify requirements for aggregating operating segments

Issue: Many respondents to the PIR think that too much aggregation of operating segments takes place. Investors, in particular, think that segments are aggregated in a way that does not assist them in their use of valuation models.

Proposed solution:

- Restructure the aggregation criteria to emphasise all requirements that must be met
- Specify that similar long-term financial performance should be met across a range of measures
- Add further examples of such measures*

* See next page for more detail

Proposed aggregation criteria

12 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.

12A 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**.

Question 2 to CMAC members

How effective do you think
our proposal is
in addressing the issue identified?

Proposed amendment

Change in segmentation: earlier information in interim reports

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Change in segmentation: earlier information in interim reports

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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 full effect on comparative information.

Proposed solution: In the first interim report following a change in the composition of an entity's reportable segments, the entity would be required to present restated segment information for all interim periods both of the current financial year and of prior financial years.

- Exception from requirement: if the information is not available and the cost to develop it would be excessive.

Question 3 to CMAC members

How effective do you think
our proposal is
in addressing the issue identified?

Next steps

- Publish Exposure Draft – end March 2017
- Comments period – 120 days, expected to end in July 2017
- Outreach to users and others during the comment period

List of all proposed amendments in the Exposure Draft

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Appendix:

Nine proposed amendments

1. Emphasise that CODM makes operating decisions
2. Explain further that CODM may be an individual or a group
3. Explain the role of non-executive members in CODM
4. Require disclosure of the CODM: title and description
5. Explain difference in segments described within the annual reporting package
6. In the aggregation criteria: add further examples of economic characteristics
7. Clarify that an entity may disclose additional segment information, ie beyond information provided to CODM
8. Explain reconciling items in sufficient detail
9. Change in segmentation: more information in interim reports

Thank you

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