

STAFF PAPER

November 2017

REG IASB Meeting

Project	Improvements to IFRS 8 <i>Operating Segments</i> arising from the post-implementation review		
Paper topic	Feedback summary: Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)		
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Purpose of the paper

1. This paper summarises comment letters and other feedback on the Exposure Draft *Improvements to IFRS 8 Operating Segments* (Proposed amendments to IFRS 8 and IAS 34) (Exposure Draft).
2. Agenda paper 27C sets out areas envisaged for further analysis. The purpose of the discussion is to ensure that the International Accounting Standards Board (Board) has sufficient information to decide on the future direction of the project at a future meeting.

Structure

3. The agenda paper is structured as follows:
 - (a) Executive summary (paragraphs 5–9)
 - (b) Proposals with significant feedback:
 - (i) Proposals 1–3 are clarifications to help identify the chief operating decision maker (CODM) (paragraphs 10–17)
 - (ii) Proposal 5 links IFRS 8 segments with other parts of the annual reporting package (paragraphs 18–35)
 - (iii) Proposal 6 clarifies criteria for aggregation of segments (paragraphs 36–41)

- (c) Other proposals:
 - (i) Proposal 4 mandates disclosure of CODM’s identity (paragraphs 42–44)
 - (ii) Proposal 7 clarifies that additional segment disclosures can be made (paragraphs 45–50)
 - (iii) Proposal 8 mandates explanation of reconciling items in sufficient detail (paragraphs 51–55)
 - (iv) Proposal 9 sets out that when there are changes in segmentation entities should provide restated interim information earlier (paragraphs 56–59).

4. Appendix A of this agenda paper sets out a summary of the comment letters and other feedback received by type of respondent and geographical region.

Executive summary

5. Respondents had mixed views on the proposals in the Exposure Draft. Nearly all respondents supported the Board’s intention to improve segment reporting. Nevertheless, investors who responded to the Exposure Draft generally thought the proposals were not sufficient and encouraged the Board to make changes that are more significant. Preparers, national standard-setters, accounting firms and accounting associations and regulators sought more clarification and questioned whether the benefits would outweigh the costs of implementing the proposals.

Investors

6. While the investors who responded to the Exposure Draft appreciate and agree with its proposals, many asked the Board to go significantly further to improve segment information. Overall, investors would like entities to provide more detailed segment information in their financial statements. For example the French Society of Financial Analysts (SFAF) said in its comment letter:

As segment information is really key for users, we believe the Board still has to further improve/change segment reporting much beyond the change proposed in this Exposure Draft, and this point has to remain a priority.

7. Some investors report that a lack of information results from the management approach in IFRS 8.¹ As described in the agenda paper 27A, the Board considered investors' feedback during the Post-implementation Review (PIR) in 2012 and the Board's overall conclusion was that the Standard functioned as expected.

Regulators

8. Overall regulators, including the International Organization of Securities Commissions and the European Securities and Markets Authority (ESMA), agree with the proposals in the Exposure Draft. Regulators say the amendments will help in enforcing IFRS 8 requirements.² However, regulators ask for more guidance on some of the proposed amendments including:
- (a) clarifications to help identify the CODM (Proposals 1–3); and
 - (b) linking IFRS 8 segments with other parts of the annual reporting package (Proposal 5).

Preparers, national standard-setters, accounting firms and accounting associations

9. Overall, this group of respondents expressed mixed views in a sense that this group of respondents agree with some proposals whilst expressing concerns. This group of respondents:
- (a) suggest more clarification or guidance is required on all of the proposed amendments, especially the proposal on how to identify the CODM (Proposal 1);
 - (b) disagree with the proposal to link IFRS 8 segments with other parts of the annual reporting package (Proposal 5); and

¹ Comment letters from Eumedion, SFAF and EFFAS.

² Comment letters from IOSCO and ESMA.

- (c) are concerned that the costs associated with implementation of the proposed amendments outweigh the benefits; for example, PricewaterhouseCoopers said:

the cost and effort to preparers implementing the ... amendments would be disproportionate to the potential benefit to financial statement users from the changes.³

Proposals with significant comments

Proposals 1–3: Clarifications to help identify the chief operating decision maker

Overview of the proposals

10. The Exposure Draft proposed three amendments for helping entities identify the CODM:
- (a) emphasising that the CODM is a function that makes operating decisions and decisions about allocating resources to and assessing the performance of the operating segments of the entity;
 - (b) adding further explanation that the CODM may be either an individual or a group; and
 - (c) providing guidance on identifying an entity's CODM when a board of directors includes non-executive directors.
11. The proposals were intended as clarifications, as opposed to changes, to IFRS 8. However, some respondents perceived the proposals as changes because application of the proposals would result in entities identifying a different individual or group as the CODM.

Comments received

12. Nearly all respondents supported the Board's intentions to provide clarity to help identify the CODM. However, regulators, preparers, national standard-setters,

³ Comment letter from PwC.

accounting firms and accounting associations wanted more guidance on the proposals.

13. Paragraph 7 of IFRS 8 states:

The CODM identifies a function, not necessarily a manager with a specific title. The function is to allocate resources to and assess the performance of the operating segments of an entity. ...

14. PIR respondents questioned whether the role of the CODM is principally strategic or operational. In responding, the Board proposed an amendment to paragraph 7 of IFRS 8 that the CODM makes *operating decisions* and decisions about allocating resources.

15. The proposed amendment does not appear to have provided the clarity the Board anticipated. Respondents to the Exposure Draft questioned the distinction between operating and strategic decisions. They asked at which level in the organisation operating decisions are made.⁴ Respondents also raised the following questions:

- (a) what constitutes an operating decision? For example, is a decision about allocation of resources a strategic or an operating decision?
- (b) who is the CODM when the decision maker who makes operating decisions differs from the decision maker in charge of the allocation of resources?⁵
- (c) if, and when can a board of directors be a CODM?⁶

16. Some respondents said it might be difficult for the Board to make the guidance on how to identify the CODM more specific given that different jurisdictions use different management structures.⁷

17. Some respondents questioned the Board's intent in publishing the proposals. Paragraph BC5 of the Exposure Draft explains that the Board intended to help

⁴ Currently there is no distinction between operating and strategic decisions in IFRS 8. There is no notion of 'operating decisions' either.

⁵ Comment letters from the Accounting Standards Committee of Germany (ASCG) and ESMA.

⁶ Comment letters from the Financial Reporting Council (FRC) (UK) and the Financial Reporting Standards Council (FRSC) (South Africa).

⁷ <http://www.ifrs.org/news-and-events/calendar/2017/july/accounting-standards-advisory-forum/>

preparers to identify the CODM. However, some respondents believe that the Board intended to lower the level at which entities identify the CODM, increasing the number of operating segments.

Proposal 5: link IFRS 8 segments with other parts of the annual reporting package

Overview of the proposal

18. The Board proposed requiring 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*.
19. This proposal is a new disclosure requirement in IFRS 8; the proposal has raised a significant number of comments from respondents to the Exposure Draft.
20. Nearly all respondents agree that the issue of inconsistency of segment information in an entity's different reports exists in practice. They also agree with paragraph BC13 of the Exposure Draft that users of financial statements 'expect that when the segment information is reported using the management approach there will be consistency in applying this approach across a range of documents.'⁸
21. Respondents generally have two concerns about the proposal:
 - (a) the requirement to link IFRS 8 segments with other parts of the annual reporting package; and
 - (b) the definition of 'the annual reporting package'.

Requirement to link IFRS 8 segments with other parts of the annual reporting package

22. The most significant issue raised regarding this proposal was whether the Board had a mandate to introduce such a disclosure requirement.
23. Many investors' reactions were similar to that of SFAF:

We have heard the argument that, as the IASB is not in charge of defining information provided outside of the financial statements (ie the

⁸ Paragraph BC13 of the Exposure Draft.

“annual reporting package”), it cannot link the information provided in segment reporting with the information outside of the financial statements. We believe however that since IFRS 8 is based on the management approach, it already means that there is a link between some non-financial information (non-IFRS) with the financial information as required by the IASB.⁹

24. Overall, investors supported Proposal 5 because they often find differences between segment information in an entity’s different reports confusing; for example, SFAF said:

Investors very often stress their need for consistency of the presentation of segment information [...] between the various documents provided by the issuers to communicate their performance with outside stakeholders.

25. One investor suggested that the Board should extend the proposed requirement to link IFRS 8 segments with other parts of the annual reporting package to interim financial statements.
26. Some investors expressed a concern that the proposed requirement might create a disincentive for preparers to provide useful voluntary disclosures through their annual reporting packages.¹⁰
27. Overall, regulators agree with this proposal. Some regulators observed that inconsistency was generally not a problem in their jurisdiction because a lack of consistency would prompt questions from the regulator.¹¹
28. ESMA in its comment letter said:

ESMA strongly agrees with the proposed amendment to paragraph 22(d), which goes into the direction expressed in our response to the PIR on IFRS 8 that consistency between segment information presented inside and outside the financial statements is key.

⁹ Comment letter from SFAF.

¹⁰ Comment letter from CRUF.

¹¹ <http://www.ifrs.org/news-and-events/calendar/2017/july/accounting-standards-advisory-forum/>

29. In contrast to the endorsement from investors and regulators, preparers, national standard-setters, accounting firms and accounting associations disagree with the proposed disclosure to explain differences for the following reasons:
- (a) they argue that explanations of differences in information contained in financial statements and other parts of its annual reporting package belong outside of financial statements and that ensuring consistency of information is a regulators' role; and
 - (b) they are concerned that the proposed amendment will create a precedent beyond segment reporting for reconciling information between financial statements and other parts of the annual reporting package.

30. The following extract from the KPMG's comment letter describes the concern:

Will preparers be required to explain in the financial statements any other apparent inconsistencies with disclosure in other parts of annual report/other documents, such as investor presentations, press announcements, etc? For example, will preparers be required to explain the absence of disclosure of remote contingent liabilities under IAS 37 that might be discussed in the narrative sections or to explain a lack of capital contributions where the narrative section includes the discussion on the strategy of expansions?¹²

Annual reporting package

31. Regulators, preparers, national standard-setters, accounting firms and accounting associations requested implementation guidance for the term 'the annual reporting package'. They suggested that the Board will need to address the following additional questions:
- (a) What information constitutes the annual reporting package?
 - (b) What does 'published at approximately the same time' mean?
 - (c) What constitutes a 'segment' in other parts of the annual reporting package?

¹² Comment letter from KPMG.

- (d) What types of differences would require disclosure (for example, differences that arise from different aggregations)?
32. All groups of respondents questioned whether auditors would be able to audit disclosures that entities would provide, applying this proposal. In response, we are liaising with the International Auditing and Assurance Standards Board (IAASB).
33. Some respondents, including auditors, pointed out that many of the challenges listed in paragraph 31 would fall away if the Board decided to restrict the requirement to link segments in financial statements to the annual report (vs the annual reporting package).

Proposal 6: clarify criteria for aggregation of segments

Overview of the proposal

34. Paragraph BC21 of the Exposure Draft says that applying the aggregation criteria for operating segments is one of the key judgements management has to make in preparing and disclosing segment information.¹³ The PIR illustrated that:
- (a) many preparers and auditors find this judgement difficult in practice; and
 - (b) regulators frequently challenge aggregation.¹⁴
35. Respondents to the PIR suggested that considering several measures of long-term financial performance would result in a more thorough assessment of whether aggregation would be appropriate and reduce inappropriate aggregation.
36. To assist preparers in exercising judgement about aggregation of operating segments, the Board proposed adding further examples of similar economic characteristics to the aggregation criteria in paragraph 12A of IFRS 8.

Comments received

¹³ Paragraph BC20 of the Exposure Draft.

¹⁴ Paragraph BC21 of the Exposure Draft.

37. Some respondents questioned whether adding further examples of similar economic characteristics is the best way to address inappropriate aggregation, as suggested in BC22 of the Exposure Draft.¹⁵
38. Overall, investors and regulators supported the proposal in the Exposure Draft. Regulators suggested further clarifications, for example by replacing ‘often’ with ‘should’ in paragraph 12A of the Exposure Draft.
39. Most preparers, national standard-setters, accounting firms and accounting associations agreed with this proposal but asked for guidance on the following matters:
- (a) How to assess similar economic characteristics. More specifically, how should entities weight similar economic characteristics? Or should management exercise judgement based on its understanding of the most relevant measures (for example, those that the CODM uses in reviewing the performance of, and allocating resources to, individual segments)?
 - (b) Further explain what the term '*long-term* financial performance' means. For example, should the performance be similar on a long-term annual basis or is it sufficient that the long-term average is similar?
40. Those preparers, national standard-setters, accounting firms and accounting associations who disagreed with this proposal had believed that the amendment might result in too much disaggregation of segments by entities.¹⁶
41. The Financial Accounting Standards Board (FASB) has recently added a project to its Work Plan for addressing the aggregation criteria for operating segments. Agenda paper 27C describes the project.

Other proposals

Proposal 4: CODM's identity must be disclosed

¹⁵ Comment letter from the Polish Accounting Standards Committee (PASC).

¹⁶ Comment letters from Autorité des normes comptables (ANC) and Insurance Europe.

42. The Board proposed requiring the disclosure of the title and description of the role of the individual or the group that is identified as the CODM.
43. Overall respondents agreed that disclosing the CODM provides useful information about the level at which decisions are made'.¹⁷
44. Respondents who disagreed with this proposal gave the following reasons:
 - (a) they believe that this disclosure belongs to non-financial information provided outside financial statements;
 - (b) the disclosure does not represent decision-useful information; and
 - (c) the disclosure will contribute to the general disclosure overload.

Proposal 7: clarify that additional segment disclosures can be made

45. The Board proposed clarifying that an entity may disclose segment information in addition to that reviewed by or regularly provided to the CODM if that helps the entity to meet the core principle in paragraphs 1 and 20 of IFRS 8.
46. The Board included the clarification in the Exposure Draft in response to feedback from users of financial statements as part of the PIR. Users had said the items listed in paragraphs 23 and 24 of IFRS 8 did not always provide them the information needed to make comparisons across entities. Paragraph BC30 of the Exposure Draft explains that while the Board understands users' concerns, requiring disclosure of items that are not reviewed by or regularly provided to the CODM is inconsistent with the management approach in IFRS 8.¹⁸ However, to avoid doubt, the Board proposed the clarification that entities may disclose additional information.
47. Overall, investors agreed with the Board's intention to provide an explicit clarification that entities may disclose additional information.
48. Regulators had mixed views on this proposal:
 - (a) some agreed with the proposal and recommended replacing 'may disclose' with 'may need to disclose'.

¹⁷ Paragraph BC25 of the Exposure Draft.

¹⁸ Paragraphs BC29 and BC30 of the Exposure Draft.

- (b) some said that allowing disclosure of such information would go beyond the management approach in IFRS 8.
 - (c) some were concerned that the proposal might open possibilities for disclosure arbitrage, especially when using non-GAAP measures.
49. Most preparers, national standard-setters, accounting firms and accounting associations agreed with the Board's proposed clarification. These respondents recommended an entity label any information reported but not reviewed by or regularly provided to the CODM.
50. Some preparers, national standard-setters, accounting firms and accounting associations disagree with the proposals for the following reasons:
- (a) including additional information contradicts the management approach in IFRS 8;
 - (b) IFRS Standards implicitly suggest that entities can disclose additional information;¹⁹
 - (c) entities should exercise caution in increasing disclosures of non-GAAP measures; and
 - (d) the information not reviewed by or regularly provided to the CODM may not be useful for users of the financial statements.

Proposal 8: explain reconciling items in sufficient detail

51. The Board proposed clarifying entities shall explain reconciling items in sufficient detail to enable users of financial statements to understand the nature of reconciling items between segment information and information reported in financial statements.
52. This proposal is a clarification of IFRS 8, which already requires that all material reconciling items shall be separately identified and described.²⁰

¹⁹ A number of respondents recommended that the Principles of Disclosure project should address this issue centrally for all IFRSs.

²⁰ Paragraph 28 of IFRS 8.

- 53. Overall, investors and regulators supported the proposal to improve the explanation of the nature of individual reconciling items.²¹
- 54. Most preparers, national standard-setters, accounting firms and associations supported this clarification.
- 55. The FASB has recently added a project to its Work Plan for addressing the formats of reconciliations between segment information and financial statements, agenda paper 27C describes the project.

Proposal 9: changes in segmentation—provide restated interim information earlier

- 56. The Board proposed that in the first interim report after a change in the composition of an entity’s reportable segments, the entity shall present related restated segment information for all interim periods both of the current financial year and of prior financial years, unless the information is not available and the cost to develop it would be excessive.
- 57. Although investors generally agree with this proposal, some investors are concerned entities might take advantage of the ‘excessive cost test’ (‘unless the information is not available and the cost to develop it would be excessive’) to avoid providing the restated interim information. However, IFRS 8 includes the same ‘excessive cost test’ when there are changes in segmentation—for restatements in annual financial statements.
- 58. Overall, regulators and most preparers, national standard-setters, accounting firms and accounting associations agreed with this proposal, although they did raise some detailed questions.

²¹ Paragraph BC36 of IFRS 8.

59. Those preparers, national standard-setters, accounting firms and associations who disagree with the proposal provide the following reasons:
- (a) the cost and effort for preparers who will need to prepare a lot of information within a short period of time;
 - (b) the cost of implementation for preparers who will need to change their current practices;
 - (c) the lack of similar requirement for restated quarterly information for all interim periods both of the current financial year and of prior financial years for changes in accounting policies or corrections of errors; and
 - (d) the contribution of restated information to information overload.

Question for the Board members

Question 1

Do Board Members have any questions or comments about the feedback summarised in this paper?

Appendix A

Statistics about feedback

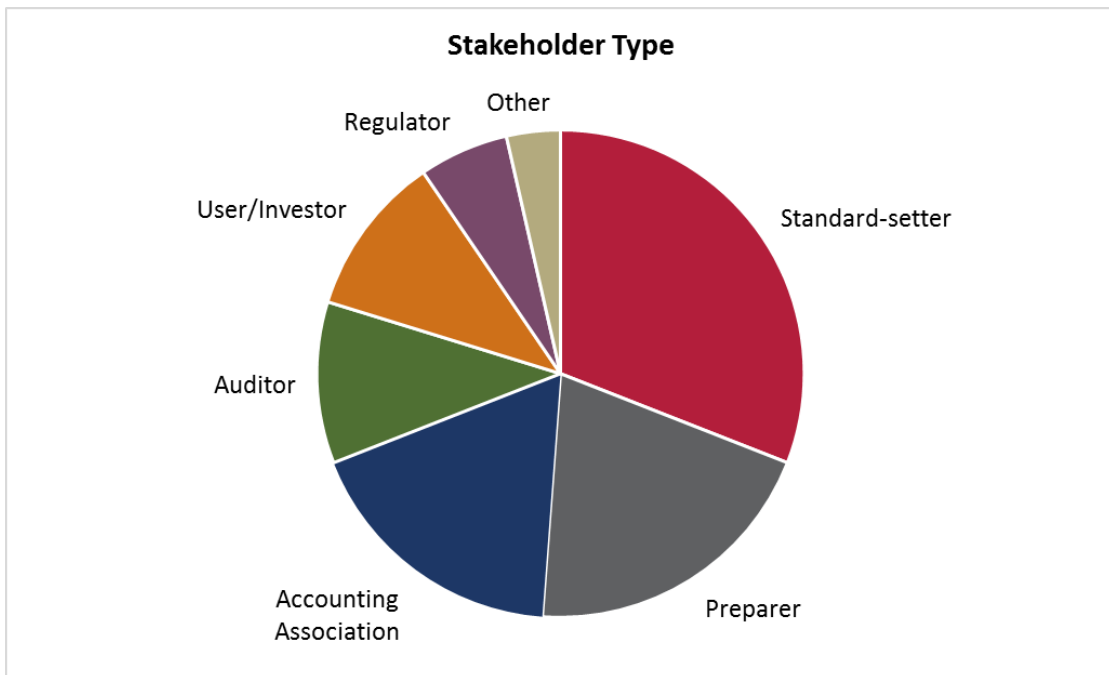
- A1. The Board received 76 comment letters.
- A2. Staff held eight meetings with various stakeholders, including:
- a. a public meeting with members of the Global Preparers Forum in June 2017;²²
 - b. a public meeting with members of the Accounting Standards Advisory Forum in July 2017;²³
 - c. a conference call with the Liaison Working Group of the IAASB; and
 - d. five meetings with users of financial statements, including a public meeting with members of the Capital Markets Advisory Committee in March 2017.²⁴
- A3. Views expressed in comment letters and during meetings often are collective views of various groups of individuals or organisations. These groups vary in sizes. Staff considered each comment letter and each meeting as a unit of feedback for the purposes of the analysis.

²² <http://www.ifrs.org/news-and-events/calendar/2017/june/cmac-and-gpf/>

²³ <http://www.ifrs.org/news-and-events/calendar/2017/july/accounting-standards-advisory-forum/>

²⁴ <http://www.ifrs.org/-/media/feature/meetings/2017/march/cmac/cmac-march-2017-meeting-summary.pdf>

A4. This chart demonstrates which types of respondents provided their feedback:



A5. This chart demonstrates geographical regions of respondents:

