

STAFF PAPER

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REG IASB Meeting

Project	Improvements to IFRS 8 <i>Operating Segments</i> arising from the post-implementation review		
Paper topic	Feedback summary: areas envisaged for further analysis		
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Purpose of the paper

1. The International Accounting Standard Board (the Board) published the Exposure Draft *Improvements IFRS 8 Operating Segments* (Proposed amendments to IFRS 8 and IAS 34) (the Exposure Draft) in March 2017.
2. In deciding on the direction of the project, the Board will take into consideration the summary of comment letters and feedback to the Exposure Draft (agenda paper 27B).
3. This agenda paper sets out areas that we envisage will require further analysis. The Board may wish to consider these areas.
4. The Board may also wish to take into consideration the US Financial Accounting Standards Board (FASB) decision in September 2017, to add a project to its technical agenda on segment reporting. The FASB project will focus on improvements to the segment aggregation criteria and reconciliations of segment information to financial statements. Appendix A of this paper provides a summary of the FASB's project on segment reporting.

Areas that require further analysis

5. We envisage that the following proposal in the Exposure Draft require further analysis:

- (a) Proposals 1-3: clarifications to help identify the chief operating decision maker (CODM);
- (b) Proposal 5: link IFRS 8 segments with other parts of the annual reporting package; and
- (c) Proposal 6: clarify criteria for aggregation of segments.

Proposals 1-3: clarifications to help identify the chief operating decision maker

- 6. Many respondents asked for guidance or clarification on proposals including:
 - (a) what constitutes an operating decision; for example whether a decision about allocation of resources is a strategic or an operating decision;
 - (b) who the CODM is when the decision maker who makes operating decisions differs from the decision maker in charge of the allocation of resources; and
 - (c) whether, and when, a board of directors can be a CODM.
- 7. To address the questions raised we need to investigate:
 - (a) whether a distinction can be drawn between operating and strategic decisions and whether they can be separately defined;
 - (b) situations when operating decisions are made at more than one level within an organisation;
 - (c) whether the lowest level in an entity that has a responsibility for managing the entire entity can be considered a CODM and how to define this 'lowest level'; and
 - (d) whether a board of directors with a majority of non-executive directors can be a CODM.
- 8. In addition, some respondents to the Exposure Draft asked what 'amounts reviewed by or regularly provided to the CODM' means in practice in situations when

management can access various reports; these situations become increasingly common as technology in general evolves.¹

9. As noted in paragraph 16 of agenda paper 27B for this meeting, given that different management structures exist in different jurisdictions, it might be difficult to provide specific guidance, beyond that currently in IFRS 8, on how to identify the CODM. One of the possible alternative solutions might be to identify and define the underlying concept without becoming overly prescriptive as to the specific tasks typically performed by the CODM.

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

10. We envisage that in finalising this proposal the Board will need to address the following two main questions:
- (a) confirm whether the Board wants to proceed with the requirement to link IFRS 8 segments with other parts of the annual reporting package; and
 - (b) if the Board decides to proceed with the requirement, providing implementation guidance on 'the annual reporting package'.
11. In respect of the annual reporting package definition, to finalise the proposals we will need to investigate some of the alternative solutions suggested by respondents to the Exposure Draft, including:
- (a) restricting the requirement so that it refers only to the annual report, not to the whole annual reporting package; or
 - (b) redefining 'the annual reporting package' to exclude, for example, preliminary announcements in order to ensure consistency with International Standard on Auditing 720 (Revised) *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements* (ISA 720).²

¹ Comment letter from Deloitte.

² In accordance with paragraph 2 of the International Standard on Auditing 720 (Revised), auditors have responsibility to review information included in 'annual reports (or similar documents), that are issued to owners (or similar stakeholders) containing audited financial statements and the auditor's report thereon'

Proposal 6: clarify criteria for aggregation of segments

12. The proposals in the Exposure Draft were intended to address the following concerns identified during the Post-implementation Review (PIR):
 - (a) many preparers and auditors find this judgement difficult in practice; and
 - (b) regulators frequently challenge aggregation.
13. We believe that to address respondents' concerns the Board will need to:
 - (a) given that the approach proposed in the Exposure Draft raised many questions, assess alternative ways to address the concerns identified in the PIR. That approach was based on assessing whether economic characteristics are similar; and
 - (b) if the Board decides to proceed with the proposed amendment, consider providing more guidance on the matters listed in paragraph 39 of agenda paper 27B about similar economic characteristics.
14. The FASB is currently considering two new approaches to the aggregation criteria. Appendix A of this paper describes both approaches.

Further work for other proposals

15. In general we believe that the following proposals in the ED can be finalised, subject to evaluation of matters raised in the comment letters:
 - (a) Proposal 4: CODM's identity must be disclosed: we do not anticipate difficult finalising this proposal given that entities in some jurisdictions already disclose the identity of CODM.
 - (b) Proposal 7: clarify that additional information about segments can be provided: we will need to confirm that this proposal is consistent with the projects *Principles of Disclosure* and *Primary Financial Statements*, especially in the area of entities disclosing non-GAAP measures.
 - (c) Proposal 8: explain reconciling items in sufficient detail: we envisage that it will not be problematic to finalise this amendment, unless the Board wants to consider the tentative thinking by the FASB about the

format of reconciliations. Appendix A of this paper describes the FASB's project.

- (d) Proposal 9: changes in segmentation – provide restated interim information earlier: we do not anticipate difficult finalising this proposal after considering some detailed questions.

Question for the Board members

Question 1

Do Board members have any questions or comments about the areas envisaged for further analysis?

Appendix A: a brief summary of the FASB's project on segment reporting³

- A1. As described in paragraph 4 of this paper, in September 2017 the FASB added a project to its Work Plan for addressing:
- a. the aggregation criteria for operating segments; and
 - b. segment disclosure requirements.

Aggregation criteria

- A2. The FASB is considering the following two approaches:
- a. move the quantitative thresholds for determining a reportable segment as a number one step in the aggregation criteria, ie develop a bright line threshold for aggregation;⁴ and
 - b. remove the aggregation criteria altogether, but retain the practicable limit guidance (for example, a practical upper limit of 10 reportable segments).
- A3. In the past the FASB considered an approach similar to the one that the Board has proposed (ie clarifying the meaning of similar economic characteristics). The FASB decided not to proceed with this approach.

Segment disclosure requirements

- A4. For segment disclosure requirements, the FASB considered three alternatives:
- a. add individual pieces of segment information to the list of disclosure requirements (for example, gross margin, operating cash flows and working capital balances if this information is regularly reviewed by the CODM);
 - b. require the disclosures in Topic 280, *Segment Reporting*, to be reported in a table; and
 - c. require a table of regularly reviewed information based on how it relates to the lines in the financial statements. The next paragraph describes this alternative in more detail.

³ http://www.fasb.org/jsp/FASB/FASBContent_C/ProjectUpdatePage&cid=1176169383606#decisions @ 24/10/2017

⁴ Currently, the quantitative thresholds are a second step (ie it follows the assessment of the qualitative thresholds) in the aggregation criteria.

- A5. The last two alternatives above relate to reconciliations of segment information to financial statements. Under alternative c. above, there will be a table which will in a columnar format:
- a. present segment information by segment (ie one segment in one column);
 - b. add up the above information (in a separate column);
 - c. have a column for reconciling items;
 - d. which will ultimately lead to the numbers reported in an entity's financial statements. The novelty of the approach is that this final column will have all line items from an entity's financial statements. In other words, if the entity reports, for example, only two pieces of segment information then there will be many blank fields of the table.⁵

⁵ It is not clear at this stage how non-GAAP measures will fit into this table.