

STAFF PAPER

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FASB/IASB Educational Meeting

Project	Improvements to IFRS 8 <i>Operating Segments</i> arising from the post-implementation review		
Paper topic	Dialogue on segments projects with the FASB		
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This paper has been prepared for discussion at a public educational meeting of the US Financial Accounting Standards Board (the FASB) and the International Accounting Standards Board (Board). It does not represent the views of the boards or any individual member of either board. Comments on the application of IFRS® Standards or US GAAP do not purport to set out acceptable or unacceptable application of IFRS Standards or US GAAP. Technical decisions are made in public and reported in FASB Action Alert or in IASB *Update*.

Objective

1. The objective of this paper is to update the US Financial Accounting Standards Board (FASB) on the post-implementation review of IFRS 8 *Operating Segments* and the subsequent work arising from that review (IFRS 8 project).
2. The paper is provided for educational purposes and FASB Board members are invited to ask any questions on the IFRS 8 project.

Background

3. In 2013, the International Accounting Standards Board (Board) issued a Report and Feedback Statement *Post-implementation Review: IFRS 8 Operating Segments*¹ (PIR of IFRS 8).
4. The Board aimed to address the findings from the PIR of IFRS 8 in an Exposure Draft, *Improvements to IFRS 8 Operating Segments – Proposed amendments to IFRS 8 and IAS 34* (ED), issued in March 2017. Based on the feedback received on the ED and on additional outreach the Board has decided not to make any

¹ <https://www.ifrs.org/-/media/project/pir-ifrs-8/educational-material/pir-ifrs-8-operating-segments-feedback-statement.pdf>

changes to IFRS 8 at this time. The staff will publish a Feedback Statement incorporating the Board's conclusion in the second half of 2018.

IFRS 8 Post-implementation Review (PIR) History

5. IFRS 8 was the result of a short-term convergence project between the segment requirements in IFRS and those in US GAAP (now codified in Accounting Standards Codification Topic 280). While there are some differences between the two Standards, the core principles and requirements are aligned. Most notably both Topic 280 and IFRS 8 adopt the management approach to segment reporting.
6. The PIR of IFRS 8 commenced in 2012 with the Board publishing a Request for Information (RFI). In response to comments received on the RFI, the Board issued the PIR of IFRS 8 in 2013.
7. The PIR of IFRS 8 concluded that overall IFRS 8 had achieved its objectives and improved financial reporting. However, the PIR of IFRS 8 also suggested that investors had some concerns about segment information provided in IFRS financial statements and, in some cases, wanted additional explanations and disclosures in the financial statements relating to segments. Consequently, the Board concluded that no revision of the core principles of IFRS 8 (the management approach) was necessary but did identify some areas for potential improvement.
8. In response to the findings of the PIR of IFRS 8, the Board issued the ED in March 2017.²
9. The overall objective of the proposals set out in the ED was to address the findings in the PIR by clarifying particular requirements of IFRS 8, thereby improving the quality of segment information disclosed in the financial statements.

² <https://www.ifrs.org/-/media/project/improvements-to-ifs-8-operating-segments/exposure-draft/published-documents/ed-proposed-amendments-ifs8-ias34.pdf>

10. The ED included 9 proposed amendments. The first 3 proposals aimed to assist an entity in identifying the Chief Operating Decision Maker (CODM) by:
- (1) 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 an entity;
 - (2) clarifying that the CODM may be either an individual or a group; and
 - (3) explaining how to identify the CODM when an entity has non-executive directors.
11. The 4th proposal responded to calls for the CODM to be disclosed by:
- (4) requiring disclosure of the title and description of the role of the individual or the group that is the CODM.
12. The remaining 5 proposals addressed other requirements in IFRS 8 highlighted as part of the PIR:
- (5) Feedback to the PIR of IFRS 8 highlighted that disclosures on reportable segments in the financial statements did not always agree with segment disclosures in other parts of the annual reporting package (or any additional explanation provided around any differences). The Board proposed that an entity provide an explanation, in the notes to the financial statements, where there are differences between reportable segments in the financial statements and segment disclosures in other parts of the annual reporting package.
 - (6) As part of the PIR of IFRS 8 preparers said that they experienced practical difficulties in the determination of when to aggregate operating segments into reportable segments. To address this concern, the Board proposed further examples of similar economic characteristics as part of the aggregation criteria in IFRS 8.
 - (7) The findings from the PIR of IFRS 8 suggested the segment information does not always meet users' requirements. To encourage additional disclosures, the Board proposed a clarification that an entity may disclose segment information in addition to that reviewed by, or regularly

provided to, the CODM if that helps the entity meet the core principle in paragraphs 1 and 20 of IFRS 8.

- (8) To address findings from the PIR of IFRS 8 that users did not always understand the reconciliations between amounts disclosed for reportable segments and the amounts reported in the statement of financial position and the statement of comprehensive income; the Board proposed a clarification that reconciling items shall be explained in sufficient detail to enable users of financial statements to understand the nature of those reconciling items.
- (9) To address the findings from the PIR of IFRS 8 that users would benefit from having restated interim information for the immediately preceding fiscal year at an earlier date, in circumstances an entity changes its reportable segments; the Board proposed an amendment to IAS 34 *Interim Reporting* (IAS 34). The amendment proposed that in the first interim report after a change in the composition of an entity's reportable segments, the entity present 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.

13. The Board received 76 comment letters³ in response to the ED. The feedback received in the comment letters was mixed. Notably;

- (1) investors who responded to the ED encouraged the Board to introduce more significant changes than those proposed in the ED; and
- (2) preparers, national standard-setters, accounting firms, accounting associations and regulators often sought more clarification on the proposed amendments and questioned whether the benefits (improvements to financial information) outweighed the costs of implementing the proposals.

³ Feedback Summary on our website: <https://www.ifrs.org/-/media/feature/meetings/2017/november/iasb/improvements-to-ifrs-8/ap27b-feedback-proposed-amendments.pdf>

14. The staff conducted further outreach with regulators and sought the advice of the Accounting Standards Advisory Forum (ASAF) to understand better the concerns expressed in the comment letters, before making any recommendations to the Board.

15. In analysing the feedback to the ED, the staff noted that stakeholders had now experienced several years of application of IFRS 8. This passage of time had resulted in responses to some of the proposed amendments being different from anticipated. The staff thought this was because practical solutions have been found to some of the issues identified in the PIR.

16. Some of the key findings from the feedback to the ED are summarised below:
 - (1) Identification of the CODM (paragraph 10 of this paper):
 - (i) The PIR originally highlighted the identification of the CODM as an area for concern. However, feedback on this aspect of the ED suggested that this was no longer a significant issue for some of our stakeholders. The staff think that some entities, having identified the CODM and having presented information to investors did not see the need to reopen the CODM analysis.

 - (2) Disclose title and description of the CODM (paragraph 11 of this paper):
 - (i) The additional disclosures provided by the ED were generally considered helpful. A minority of respondents were however concerned that the additional disclosure may contribute to disclosure overload.

 - (3) Differences between segment information in the financial statements and other parts of the annual reporting package (paragraph 12 (5) of this paper):
 - (i) There was mixed feedback on this proposal. Investors and regulators were generally supportive of the proposal. However, others (specifically preparers) were not supportive; they highlighted the challenges of implementing the proposed disclosures. Additionally, some thought the issue raised in the PIR was an enforcement issue and not a standard-setting matter.

- (4) Additional examples of similar economic characteristics to the aggregation of segments (paragraph 12(6) of this paper):
 - (i) There were mixed views on whether additional examples really assist in the resolution of the practical difficulties around aggregation identified in the PIR.
 - (5) Clarify that additional segment disclosures can be made (paragraph 12(7) of this paper):
 - (i) Respondents to the ED noted 2 concerns; some thought an explicit disclosure requirement was unnecessary; and some thought that the inclusion of the proposed amendment went beyond the management approach.
 - (6) Clarify the requirement to provide sufficient explanations of reconciling items (paragraph 12(8) of this paper):
 - (i) There was general support for this proposal; users considered the additional disclosure requirement to be helpful and preparers did not think such additional disclosure would be burdensome to prepare.
 - (7) Proposed amendment to IAS 34 (paragraph 12(9) of this paper):
 - (i) In general, respondents were supportive of the proposed amendment to the ED to include restated interim information earlier. There were however, some concerns expressed around whether the costs would exceed the benefits.
17. At its meeting in March 2018, the Board acknowledged that IFRS 8 has some areas that could be subject to potential improvement and thereby it initially supported the following staff recommendations;
- (1) to proceed with the proposed disclosure of the title and description of the CODM role (paragraph 11 (4) of this paper);
 - (2) to assess whether it is possible to narrow the scope of the proposal that an entity link its IFRS 8 reportable segments with other parts of the annual reporting package (paragraph 12 (5) of this paper);

- (3) to clarify the level of detail required to explain the reconciling items in reconciliations of segment disclosures to financial statements (paragraph 12 (8) of this paper); and
 - (4) to require that all interim periods of the current and prior financial years be restated and presented in the first interim report after a change in the composition of reportable segments, unless the information is not available and the cost to develop it would be excessive (paragraph 12(9) of this paper).
18. The Board also agreed with the staff recommendation not to proceed with the following proposals;
- (1) to assist an entity identify the CODM (paragraph 10 of this paper);
 - (2) to clarify how to apply the ‘similar economic characteristics criterion’ for aggregation (paragraph 12(6) of this paper); and
 - (3) to disclose additional segment information that may be provided if it helps an entity meet the core principle in paragraphs 1 and 20 of IFRS 8 (paragraph 12(7) of this paper).
19. The Board discussed each of the proposed amendments and the staff recommendations individually and then assessed whether or not to proceed with these amendments in aggregate taking into consideration the nature, extent and majority views on each of the individual amendments.
20. Ultimately, the Board decided that, when taken in aggregate, the proposals that the Board supported individually would not result in sufficient improvements in information to investors to justify the costs that stakeholders would incur if the Board were to amend IFRS 8. Consequently, the Board decided not to amend IFRS 8⁴ at this time.
21. The Appendix to this paper provides a summary of the IFRS 8 project, based on the 9 proposed amendments in the ED, in a tabular form.

⁴ IASB Update March 2018 on our website: <https://www.ifrs.org/news-and-events/updates/iasb-updates/march-2018/#5>

22. In response to the Board's decision not to amend IFRS 8, the staff will publish a Feedback Statement incorporating the Board's conclusion in the second half of 2018.
23. The feedback statement will contain details of the history of the IFRS 8 project and the basis for the Board's conclusions.

Question

Question

Do you have any comments or questions on the IFRS 8 project and the Board's conclusions at the Board Meeting in March 2018?

Appendix: Summary of Board’s Responses to the Proposed Amendments

PROPOSALS 1-3 – IDENTIFICATION OF THE CODM			
PIR Finding	ED Proposal	ED Feedback¹	Board’s Response²
<p>The feedback from the PIR suggested that identification of the CODM had proven difficult in practice.</p> <p>A number of respondents stated that it was unclear whether the role of the CODM is strategic or operational.</p>	<p>The Board proposed three amendments aimed at clarifying the role of the CODM and addressing some of the application issues identified in the PIR. The amendments proposed were:</p> <ul style="list-style-type: none"> ○ A proposal to emphasize 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 an entity. ○ A proposal to supplement current IFRS 8 requirements clarifying that the CODM may be either an individual or a group. ○ A proposal to explain how to identify the CODM when an entity has non-executive directors. 	<p>The majority of respondents to the ED did not consider that the amendments provided the clarity intended by the Board.</p> <p>A number of respondents said that the proposals raised additional questions about the role of the CODM. For example, a number of respondents questioned whether resource allocation was an operating decision or a strategic decision and, in turn, sought clarification about whether the role of the CODM was strategic or operational.</p> <p>Some stakeholders expressed a view that the proposed amendments could result in the CODM being identified at a higher level of the entity’s organisational structure than currently identified when applying IFRS 8. If this were the case, the proposed amendments could reduce the number of segment disclosure provided to users of financial statements (contrary to the intent of the Board when proposing the amendments).</p>	<p>The responses from the comment letters, combined with additional feedback obtained from outreach activities, indicated that the proposed amendments did not address the PIR findings and provide additional clarity about the CODM.</p> <p>In view of this, the Board decided not to proceed with the proposed amendments related to the identification of the CODM.</p>

¹ ED Feedback represents both responses received through comment letters as well as comments received from additional outreach activities conducted by the staff.

² The Board’s response represents the majority view of the Board on each of the individual proposals. The Board ultimately decided not to proceed with any of the amendments on the basis that, when taken in aggregate, the proposals that the Board approved would not result in sufficient improvements in information to justify the costs that stakeholders would incur if the Board were to amend IFRS 8.

PROPOSAL 4 – DISCLOSURE OF THE TITLE AND DESCRIPTION OF THE CODM

PIR Finding	ED Proposal	ED Feedback	Board’s Response
<p>The feedback from the PIR suggested that users of financial statements would consider it helpful if the title of the CODM was disclosed in the financial statements.</p> <p>Users stated that such disclosure would provide a useful insight into how the business is run and how decisions are made by an entity.</p>	<p>The ED included a proposal to disclose the title and description of the role of the individual or the group that is the CODM.</p>	<p>The majority of respondents to the ED were supportive of disclosing the title and the role of the CODM in the financial statements.</p> <p>A minority of respondents thought such disclosure would not represent useful information. In addition, some of these respondents said the proposed amendment would contribute to disclosure overload.</p>	<p>The Board, in view of the feedback, initially supported proceeding with this proposed amendment.</p>

PROPOSAL 5 – EXPLANATION OF DIFFERENCES BETWEEN SEGMENT INFORMATION IN THE FINANCIAL STATEMENTS AND OTHER PARTS OF THE ANNUAL REPORTING PACKAGE

PIR Finding	ED Proposal	ED Feedback	Board’s Response
<p>The Board’s expectation, following the issuance of IFRS 8 was that the segment information would agree with the management commentary. The Board anticipated this would add greater depth to the segment information presented in financial statements.</p> <p>The feedback from the PIR indicated that the segment information in the financial statements did not always agree with the segment information provided in the management commentary (nor was any additional explanation provided about any differences between the two reports).</p>	<p>The Board aimed to address this feedback by proposing disclosure explaining any differences in segments disclosed in the financial statements and other parts of the annual reporting package.</p> <p>The ED proposed a definition of the annual reporting package.</p>	<p>Feedback on the proposed amendments was mixed:</p> <ul style="list-style-type: none"> ○ Investors and regulators were generally supportive of the proposal and expressed a view that this additional disclosure would provide useful information. ○ Preparers, national standard-setters and accounting firms and accounting associations were not supportive of the proposal because of the challenge of implementing the proposed disclosure, especially in relation to documents outside of the annual report. <p>Respondents who did not support the proposal suggested the issue identified from the PIR was an enforcement matter and not a standard-setting issue.</p>	<p>The Board acknowledged the concerns raised by some constituents related to the scope of the proposal and therefore discussed the possibility of narrowing the scope of the proposal to address these concerns.</p> <p>The Board asked the staff to explore narrowing the scope of the proposal and, in particular, reconsidering the reference to, and definition of, the annual reporting package.</p>

PROPOSAL 6 – ADD FURTHER EXAMPLES OF SIMILAR ECONOMIC CHARACTERISTICS TO THE AGGREGATION OF SEGMENTS

PIR Finding	ED Proposal	ED Feedback	Board’s Response
<p>The feedback from the PIR suggested that many respondents were of the view that too much aggregation of operating segments into reportable segments occurs in the financial statements.</p> <p>IFRS 8 permits operating segments to be aggregated into reportable segments where the operating segments share similar economic characteristics. The PIR identified that, in practice, preparers experienced practical difficulties in the determination of when to aggregate operating segments into reportable segments.</p>	<p>The ED included a proposal aimed at assisting the application of the aggregation requirements by including additional examples of when segments have similar economic characteristics.</p>	<p>Some respondents were supportive of the proposal to include additional examples in IFRS 8. However, those respondents stated that the examples did not resolve the practical issues of when to aggregate segments.</p> <p>Respondents also indicated that the inclusion of additional examples left open the question of how to assess the relative importance of each of the factors on whether operating segments share similar economic characteristics.</p> <p>Several respondents stated that it would be helpful to provide a conceptual basis around the economic factors to be considered. For example, economic characteristics should have greater importance if they are measures that are of the most relevance to the CODM.</p>	<p>The Board acknowledged the proposal, specifically the inclusion of additional examples, may not address the practical problems identified in the PIR of IFRS 8. Consequently it decided not to proceed with the proposal.</p>

PROPOSAL 7 – CLARIFY THAT ADDITIONAL SEGMENT DISCLOSURES CAN BE MADE			
PIR Finding	ED Proposal	ED Feedback	Board’s Response
<p>The feedback from the PIR suggested that many users of financial statements thought that the disclosure requirements in IFRS 8 do not always provide the information they need and requested that the Board mandate disclosure of specific items.</p>	<p>The ED included a proposal to clarify 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 the Standard.</p> <p>The Board did not mandate any specific disclosure requirements as to do so would be inconsistent with the management approach (ie to mandate disclosure of items that are not regularly reviewed by the CODM).</p>	<p>Responses to the proposed amendment were mixed;</p> <ul style="list-style-type: none"> ○ A number of respondents stated that it was unnecessary to provide an explicit disclosure requirement in IFRS 8 allowing entities the option of providing additional disclosures, as IFRS Standards already permit this. ○ Some respondents indicated that the proposed amendments went beyond the management approach. These respondents also expressed a view that this amendment could lead to the increased use of non-GAAP measures in the financial statements. ○ Other respondents stated that if such information was included in the financial statements then the disclosure should also state that the additional information was not regularly reviewed by the CODM. 	<p>The Board considered the existing mechanism in IFRS Standards that enable an entity to provide additional disclosures. Specifically the Board noted that paragraph 17(c) of IAS 1 <i>Presentation of Financial Statements</i>, requires an entity to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.</p> <p>The Board decided the proposed amendment was not necessary.</p>

PROPOSAL 8 – REMINDER TO PROVIDE SUFFICIENT EXPLANATIONS OF RECONCILING ITEMS

PIR Finding	ED Proposal	ED Feedback	Board’s Response
<p>The feedback from the PIR suggested that many investors found the reconciliations provided in the segment note difficult to understand.</p> <p>Investors responding to the PIR stated that the explanations of reconciling items between the amounts disclosed for reportable segments and the amounts reported in the statement of financial position and statement of comprehensive income did not provide enough information to understand exactly what the reconciling items represented. As such, it was difficult to understand the reasons for the differences between the information provided about reportable segments in the notes and the information provided in the primary financial statements.</p>	<p>The ED included a proposal to clarify that reconciling items be explained in sufficient detail to enable the users of financial statements to understand the nature of those items.</p> <p>The ED also proposed including more examples of reconciling items. It was anticipated more examples would facilitate the provision of additional detail by preparers of financial statements.</p>	<p>There was general support by respondents to the ED. The extra detail that the additional explanations would provide was considered helpful to users without being excessively burdensome for preparers to provide.</p>	<p>The Board initially supported proceeding with the proposed amendments, based on the responses from comment letters, combined with additional feedback obtained from outreach activities.</p>

PROPOSAL 9 – PROVIDE RESTATED INFORMATION EARLIER IN INTERIM REPORTS

PIR Finding	ED Proposal	ED Feedback	Board’s Response
<p>The feedback from the PIR suggested that users would benefit from having restated interim information for the immediately preceding fiscal year at an earlier date in circumstances when an entity changes its reportable segments.</p>	<p>The ED proposed to require that, in the event of a change in the reportable segments of an entity, all interim periods of the prior financial year(s) be presented in the first interim statements after a change in reportable segment.</p> <p>Some relief was provided in that if the information was not available at that time and the cost to develop it would be excessive, entities did not have to comply with the accelerated interim disclosures.</p>	<p>In general, respondents were supportive of the proposed amendments to IAS 34. By providing information relating to the new structure at an earlier date, this will assist in facilitating a better understanding of the new reporting structure in place.</p> <p>Some concerns were expressed about the proposal and whether or not the benefits would exceed the cost of the amendment.</p>	<p>The Board initially supported proceeding with proposal in view of the feedback received.</p>