

STAFF PAPER

March 2018

IASB Meeting

Project	Improvements to IFRS 8 <i>Operating Segments</i> arising from the post-implementation review		
Paper topic	Proposed amendments to the definition of the chief operating decision maker (CODM)		
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Objective

1. The objective of this paper is to discuss the proposals in the Exposure Draft *Improvements IFRS 8 Operating Segments* (Proposed amendments to IFRS 8 and IAS 34) (Exposure Draft) that aimed to help clarify how to identify the chief operating decision maker (CODM).
2. IFRS 8 requires disclosure of information to enable users of financial statements to evaluate the nature and financial effects of business activities in which an entity engages and the economic environment in which it operates. Operating segments are identified, in part, by the determination of the CODM. The objective of the amendments proposed in the Exposure Draft was to help entities identify the CODM and consequently improve the ability of users to “see an entity through the eyes of management” (the management approach).

3. In this paper we are asking the Board three questions:
- (a) Do you agree with the staff recommendation not to proceed with the proposed amendments to help identify the CODM (paragraphs 7, 7A, and 7B of the Exposure Draft)?
 - (b) Do you agree with the staff recommendation to proceed with the proposed amendment requiring disclosure of the CODM (paragraph 22(c) of the Exposure Draft)?
 - (c) Do you agree with the staff recommendation that no further actions are required at this time with respect to helping to identify the CODM?

Structure of the paper

4. This paper is structured as follows:
- (a) review of the proposals and comments received on the Exposure Draft (paragraphs 5-14);
 - (b) additional outreach (paragraphs 15-26); and
 - (c) staff analysis and recommendations (paragraphs 27-37).

Review of the proposals and comments received on the Exposure Draft

5. The Post-implementation Review (PIR), asked about the extent of any implementation challenges relating to the identification of the CODM and whether the requirements of IFRS 8 were sufficiently clear in this regard.
6. The key findings of the PIR¹ relating to the identification of the CODM were that:
- (a) practical difficulties exist in the identification of the CODM;
 - (b) there is a lack of clarity as to whether the role of the CODM is principally strategic or operational; and
 - (c) there is a lack of clarity about where the role of the CODM should be in an entity's management hierarchy.

¹ Findings extracted from pages 7 and 25 of the July 2013 Report and Feedback Statement published by the IASB.

7. The amendments proposed in the Exposure Draft aimed to clarify the role of the CODM by improving the definition of the CODM. It was anticipated that the proposed amendment would make it easier to identify the CODM. The proposed amendments added emphasis to the nature of the function represented by the CODM and the types of decisions the CODM makes about the operating segments of the entity. The proposed amendments also provided additional detail on how to assess whether the CODM is an individual or a group.
8. In addition to the proposed amendment to the definition of the CODM, the Exposure Draft also included a proposal to disclose the title and description of the role of the individual or group identified as the CODM. As explained in paragraph BC25 the Exposure Draft, the proposed disclosure was included because users said that such a disclosure would provide useful information about how the business is operated and the level at which decisions are made. Regulators and auditors also thought the proposed disclosure would make the entity's decision-making process more transparent.
9. As was described in the feedback summary presented to the Board in November 2017, the comment letters to the Exposure Draft indicated that the proposed amendments to clarify the role of the CODM did not provide the clarity the Board had intended. For example, the proposed amendment to paragraph 7 states:

The function is the one that makes operating decisions and decisions about allocating resources....

10. A number of respondents to the Exposure Draft questioned whether or not resource allocation is an operating decision or a strategic decision and, if the latter, how this fits with the operating role of the CODM.
11. Some respondents stated that the proposed amendments were not helpful and could result in the CODM being identified at a higher level than currently identified in accordance with IFRS 8. For example, one respondent stated:²

...we believe that the proposed amendments may not be effective in assisting preparers in identification of the CODM compared to extant IFRS 8..... Further, the proposed

² Comment letter from KPMG dated 31 July, 2017.

changes in paragraphs 7A-7B may lead to identification of the CODM at a higher level of the entity's organisational structure (e.g. board of directors, management committee) potentially leading to less disaggregation rather than more disaggregation of operating segments. In our experience, information provided to a more senior group of recipients (including non-executive members) tends to be less disaggregated. Therefore we recommend that the Board evaluates if these proposed amendments adequately respond to users' needs and any regulatory concerns about the aggregation of operating segments.

12. Another respondent³ stated that they did not believe there were existing problems with identification of the CODM but nor did they object to the proposed amendment:

....we do not object to the amendments proposed to paragraphs 7A and 7B, on the understanding that these are clarifications which do not change the existing requirements.

13. The proposal to disclose the title of the CODM received fewer comments. The majority of respondents were supportive of adding this disclosure. Some respondents simply stated they agreed without providing a reason; others stated that this disclosure would be helpful, as it would make the entity's decision-making process more transparent.
14. The counter-view expressed to disclosure of the title of the CODM was that the proposed disclosure did not provide users with useful information for decision-making and could result in adding clutter to the financial statements.

Additional outreach

15. Since the November 2017 Board meeting, the staff have conducted a further review of the feedback received and performed additional outreach.

³ Comment letter from Business Europe dated 25 July, 2017.

Accounting Standards Advisory Forum (ASAF)

16. The staff asked ASAF for its advice on the proposed amendments and on three alternative approaches at its December 2017 meeting.⁴
17. Many ASAF members did not support the clarifications proposed in the Exposure Draft. These members were of the view that the cost of proceeding with the proposed amendments outweighed the potential benefits.
18. Some ASAF members indicated that while there may have been some initial difficulties in the identification of the CODM, these initial difficulties had now largely been resolved. In essence, ASAF members were concerned about the cost of reopening the debate on the identification of the CODM to apply the proposed amendments.
19. Three alternative approaches to the identification of the CODM were also discussed with ASAF. The three approaches were:
 - (a) define the CODM as the lowest level of management that allocates resources and assess performance for the entity as a whole;
 - (b) define the CODM as the function that makes decisions related to the ongoing generation of revenue and incurrence of expenses; and
 - (c) state that the CODM cannot include a majority of non-executive directors.
20. There was minimal support by ASAF members for any of the alternative approaches discussed. ASAF members also noted that the development of more specific guidance on the definition of the CODM could prove to be challenging given the different legal and governance structures that exist in the various jurisdictions that apply IFRS Standards.

Regulatory bodies

⁴ The approaches presented to ASAF and ASAF's feedback on them can be found at: <http://www.ifrs.org/news-and-events/calendar/2017/december/accounting-standards-advisory-forum/>

21. In addition to the discussions with ASAF, we have also discussed the proposals and the alternatives alternative approaches to the identification of the CODM with some regulators.
22. We submitted a list of questions to various regulatory bodies which were intended to obtain additional insights about the proposed amendments to help identify the role of the CODM as well as the viability of alternatives approaches discussed with ASAF.
23. Comments by regulators included:
 - (a) continuing concerns about whether or not the CODM has been identified at the appropriate level: and
 - (b) potential difficulties in overturning the determination of a CODM made by an entity.
24. In regards to the proposed amendments and the alternative approaches:
 - (a) some regulators specifically stated that the proposed amendments could reduce the number of segments reported because the inclusion of non-executive directors in the definition of the CODM could lead to the CODM being recognised at a higher level.
 - (b) another regulator suggested that the Board focus on the meaning of “regularly reviewed” to acknowledge that “regularly reviewed” could encompass less frequent reviews in certain situations thereby capturing more information to be disclosed in the financial statements. In the latter instance, the regulator noted that, while their comment was not directly related to the CODM identification, this was another approach to improving information for investors.
25. During our discussions with regulators, we also discussed different legal and governance structures of the different jurisdictions. We noted that different legal and governance structures do influence the identification of the CODM.
26. We also observed that regulators place emphasis on different parts of the CODM definition. We do not have any evidence either way to suggest that this results in a different CODM being identified and thereby different information being provided; but we did note different approaches to the enforcement of IFRS 8.

Staff analysis and recommendations

27. In performing our staff analysis and arriving at a recommendation for the Board, we have considered the following questions:
- (a) does the feedback indicate that the outcome of the proposed amendments will achieve the objective set out in the Exposure Draft and address the findings identified in the PIR?
 - (b) does the feedback indicate that there are further actions that should be taken with respect to the matter addressed in the proposed amendments?

Does the feedback indicate that the outcome of the proposed amendments will achieve the objective set out in the Exposure Draft and address the findings identified in the PIR?

28. The proposed amendments to the identification and disclosure of the CODM aimed to respond to the PIR findings that there were difficulties in practice in identifying the CODM, including a lack of clarity on whether the role of the CODM was principally strategic or operational. The responses to the Exposure Draft, combined with additional feedback obtained from our outreach activities, indicate that the proposed amendments have not met the objectives of the Exposure Draft and therefore do not respond to the findings of the PIR.
29. The responses to the proposals in the Exposure Draft and the further outreach undertaken suggest that, subsequent to the PIR, solutions have been found to some of the practical issues associated with identification of the CODM highlighted in the PIR. We think the consequence, of finding these practical solutions is that stakeholders have set a high hurdle for the Board to make any changes to the definition of the CODM; put another way stakeholders do not want to reopen the debate on the identification of the CODM unless there are very clear benefits that will outweigh the costs.
30. Despite the above, not all stakeholders believe that the initial implementation issues associated with the identification of the CODM have been resolved particularly investors who would like to have more disclosures about segments in the financial statements. However, many investors question the application of the management approach rather than who is identified as the CODM.

31. While we acknowledge these remaining concerns, we do not believe that proceeding with the proposed amendments will address investors concerns. The feedback received indicates that the proposed amendments have not provided clarity and may result in fewer segments being identified and therefore less information for financial statement users.
32. As such, the staff recommend that the Board does not proceed with the proposed amendments to the definition of the CODM.
33. The proposals to disclose the CODM (paragraph 22(c) of the Exposure Draft) aimed to make the entity's decision-making process more transparent to users of financial statements. Most respondents are supportive, with no strong objections, of this additional disclosure. Accordingly, the staff recommend that the Board proceed with this proposed disclosure.

Does the feedback indicate that there are further actions that should be taken with respect to the matter address in the proposed amendments?

34. We have not identified any further actions, at this time, that the Board should take with respect to identification of the CODM.
35. As is described earlier in this paper, the staff have explored alternative approaches to the definition of the CODM but we did not receive positive feedback on these approaches in our outreach. The staff could continue to explore alternative approaches to the definition of the CODM but we believe this would require further research, including additional outreach, and probably a new due process document.
36. As such, we do not believe any further actions should be taken, at this time, with respect to the definition of the CODM.

Next steps

37. Should the Board agree to continue to develop the proposed disclosure of the CODM we will bring a further paper to the Board.

Questions for Board members

Questions

1. Do you agree with the staff recommendation not to proceed with the proposed amendments to help identify the CODM?
2. Do you agree with the staff recommendation to proceed with the proposed amendment requiring disclosure of the CODM?
3. Do you agree that no further actions should be taken at this time with respect to help identify the CODM?