

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 for additional disclosures, reconciliations and interim financial statements (IAS 34)		
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Objective

1. The objective of this paper is to discuss three proposals in the Exposure Draft *Improvements to IFRS 8 Operating Segments* (Proposed amendments to IFRS 8 and IAS 34) (Exposure Draft) that aimed to help clarify and/or improve particular disclosure requirements of IFRS 8 and IAS 34 *Interim Financial Reporting*.
2. This paper addresses three of the proposed nine amendments in the Exposure Draft:
 - (a) IFRS 8 requires an entity to provide disclosures about profit or loss, and assets and liabilities if this information is reviewed by the chief operating decision maker (CODM) or otherwise is regularly provided to the CODM. The proposed amendment to IFRS 8 aimed to clarify additional disclosures which may be provided where they help an entity meet the core principle in paragraphs 1 and 20 of IFRS 8.
 - (b) IFRS 8 requires an entity to provide reconciliations of segment disclosures to financial statements. The proposed amendment clarifies that the explanation of reconciling items shall be given with sufficient detail to enable users of financial statements to understand the nature of reconciling items.

- (c) IAS 34 requires restated comparative information after a change in the composition of an entity's reportable segments occurs. The proposed amendment to IAS 34 proposed that all interim periods of the current financial year and prior financial years be restated and presented in the first interim financial report after the change in the composition of reportable segments, unless the information is not available and the cost to develop it would be excessive.
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 amendment to IFRS 8 to clarify that additional disclosures may be provided if they help an entity meet the core principle in paragraphs 1 and 20 of IFRS 8?
- (b) Do you agree with the staff recommendation to proceed with the proposed amendment to IFRS 8 to clarify the level of detail that is required to explain reconciling items?
- (c) Do you agree with the staff recommendation to proceed with the proposed amendment to IAS 34 to require that all interim periods of the prior financial years be restated and presented in the first interim financial report after a change in the composition of reportable segments?

Structure of the paper

4. This paper is structured as follows:
- (a) background to the proposed amendments (paragraphs 5-7);
- (b) review of proposals in the Exposure Draft and comments received (paragraphs 8-15); and
- (c) staff analysis and recommendations (paragraphs 16-22).

Background to the proposed amendments

5. In order to assess the effect of IFRS 8 disclosure requirements on stakeholders, as part of the PIR, the Board asked questions to understand whether investors received better information and whether operating segment disclosures were more or less burdensome. The key findings from the PIR relating to disclosures included:
 - (a) most preparers thought that the reconciliation requirements were clear and easy to comply with but, conversely, many investors found the reconciliations difficult to understand;
 - (b) investors also reported that the reconciliations did not provide enough information to understand what the reconciling items represent; and
 - (c) some investors reported that the disclosures required by IFRS 8 did not always provide them with the information that they needed and would like IFRS 8 to mandate particular line items for disclosure.
6. Outreach conducted after the PIR also revealed that many users were not fully satisfied with the nature and timing of the interim disclosures being provided on segments applying IAS 34. The provision of earlier restated interim segment information would allow users of financial statements to update any models based on interim reporting intervals when the change in segments is first reported (currently under IFRS 8 an entity does not need to provide the restated information for a comparative interim period until information for that corresponding current interim period is reported).
7. The proposed amendments aimed to respond to the comments from investors, without posing an excessive burden on preparers.

Review of proposals and comments received on the Exposure Draft

Additional segment information

8. The proposed amendments for additional segment information aimed 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 meet the core principle in paragraphs 1 and 20 of the Standard.

9. There were mixed views on this proposal; some respondents indicated that the disclosure was not specific enough and suggested that the word “may” be replaced by “shall” thus proposing that any additional information that helps the entity meet the core principle in IFRS 8 should be disclosed and not left to the discretion of the entity to decide.
10. Regulators had mixed views on the proposal noting that it was unclear how an entity should determine when or what additional information should be disclosed. One respondent¹ stated:

...we are concerned that the proposed requirement broadens the scope of permissible information and may create enforceability challenges in practice. We are also concerned that it increases the likelihood of the inappropriate inclusion of information, such as non-GAAP information....that does not meet the core principle of IFRS 8.

11. Another respondent² indicated that they did not think that the proposed amendment was necessary on the basis set out in the extract below from their comment letter:

We do not believe that the proposed addition of paragraph 20A is necessary as there is currently no prohibition in IFRS 8 (or in IFRSs more generally) from providing additional disclosures should they be considered useful to users of financial statements. Rather than adding this paragraph to IFRS 8 in isolation, we recommend that the use of disclosures beyond those specifically required by IFRSs be considered more broadly as part of the Board’s project on the Principles of Disclosure.

¹ Extracted from comment letter from IOSCO dated 24 July, 2017.

² Extracted from comment letter from Deloitte dated 3 July, 2017.

Reconciliations

12. The proposed amendments regarding the reconciliation suggested a more detailed explanation of material reconciling items in order to help users better understand differences between the totals reported for the reportable segments and the entity as a whole.
13. There was general support from all types of stakeholders for the inclusion of enhanced explanations for reconciling items. Many respondents simply stated that they agreed without further explanation. Others, such as the Canadian Accounting Standards Board³, agreed and stated the basis for their agreement:

We support this clarification as the nature of these reconciling items is often unclear in current practice, and the extra detail will be helpful to users without creating a burden for preparers.

Restated interim information

14. The proposed amendments to IAS 34 suggested an entity present restated segment information for all interim periods in the first interim report after a change in the composition of an entity's reportable segments. The proposal does allow an entity some relief, if the information is not available and the cost to develop it would be excessive.
15. Most, but not all, respondents agreed with this proposal on the basis that making this information available to users at an earlier date will help to facilitate their understanding of the new segments. One respondent⁴ stated that it should give users earlier access to information that will generally already have been prepared by an entity:

We consider that this will help users to compare trend information after a change in reportable segments without imposing significant costs on preparers as this information will generally not require the collection of new information but rather it requires earlier disclosure of that information.

³ Extracted from comment letter from the Canadian Accounting Standards Board dated July 31, 2017.

⁴ Extracted from comment letter from the FRC dated 24 July, 2017.

Staff analysis and recommendations

16. In performing our staff analysis and arriving at a recommendations to the Board, we have considered the following questions:
- (a) Does the feedback indicate that the outcome of the proposed amendment(s) will achieve the objective set out in the Exposure Draft and address the finding(s) 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 amendment(s)?

Recommendation: additional segment information

17. The proposed amendments to clarify that an entity may disclose segment information in addition to that reviewed by the CODM on a regular basis aimed to provide investors with additional information on an entity's segments. The responses to the Exposure Draft were mixed; some thought that the proposals did not go far enough and others considered such disclosures unnecessary and a topic that should be addressed in the *Principles of Disclosure* project.
18. The staff also noted that other IFRS Standards do not specifically state that additional information can be provided. We note that paragraph 17 of IAS 1 *Presentation of Financial Statements*, requires an entity to provide additional disclosures when compliance with the specific IFRS requirements 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. As such, to the extent additional disclosures are considered necessary under IFRS 8, there is an existing mechanism in IFRS Standards that captures this requirement.
19. Consequently, the staff do not consider that the proposed amendment is necessary. Entities may already provide additional disclosures, and therefore we do not think finalising this proposal will improve the quality of financial reporting.
20. Although we are not recommending proceeding with the proposed amendment to clarify that entities may disclose segment information in addition to that reviewed by the CODM, we note that investors continue to request additional line items in segment information provided by entities. This request continues to arise in other

Board projects (for example, *Principles of Disclosure, Primary Financial Statements* and *Goodwill and Impairment*).

Recommendation: reconciliations

21. The proposed amendments to clarify that additional detail is required to support the explanations of reconciling items aimed to respond to findings in the PIR that investors found the reconciliations to be unclear and lacking in detail. The responses to the Exposure Draft indicate that the proposed amendments have met the objectives set out in the Exposure Draft and appropriately respond to the findings of the PIR.
22. Consequently, the staff recommendation to proceed with the proposed amendment to IFRS 8 to clarify the level of detail that is required to explain reconciling items.

Recommendation: restated interim information

23. The proposed amendments to accelerate the provision of restated interim segment information was intended to provide users of financial statement with access to financial information on a more timely basis. This was to be achieved by requiring that restated comparative information be provided, for the full year, in the first interim period after a change in the composition of the reportable segments, unless the information is not available and the cost to develop it would be excessive. Investors would then be able to update any models when the change in segments is first reported.
24. In view of this support by users of financial statements, the staff recommend that the Board proceeds with this proposed amendment.

Questions for Board members

Questions

1. Do you agree with the staff recommendation not to proceed with the proposed amendment to IFRS 8 to clarify that additional disclosures may be provided if they help an entity meet the core principle in paragraphs 1 and 20 of IFRS 8?
2. Do you agree with the staff recommendation to proceed with the proposed amendment to IFRS 8 to clarify the level of detail that is required to explain reconciling items?
3. Do you agree with the staff recommendation to proceed with the proposed amendment to IAS 34 to require that all interim periods of the prior financial years be restated and presented in the first interim financial report after a change in the composition of reportable segments?