

February 2019

IFRS® Standards
Project Summary

Responses to Exposure Draft

Improvements to IFRS 8 Operating Segments (ED/2017/02)

Important information

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Further information

Further information about the Improvements to IFRS 8 *Operating Segments* (Amendments to IFRS 8 and IAS 34) project is available on the [IFRS Foundation website](#).

Overview of this Project Summary

At a glance

The International Accounting Standards Board (Board) issued IFRS 8 *Operating Segments* in November 2006.

The Board started the Post-implementation Review (PIR) of IFRS 8 in 2012 and in July 2013 published a report and feedback statement (Feedback Statement) summarising the findings of the PIR.¹

The Board proposed to address the findings from the PIR of IFRS 8 in the Exposure Draft *Improvements to IFRS 8 Operating Segments—Proposed amendments to IFRS 8 and IAS 34* (Exposure Draft), published in March 2017.²

Having considered the feedback, the Board decided not to proceed with the amendments proposed in the Exposure Draft. The Board noted that some of its proposals could be dealt with by existing requirements and other proposals would not be effective in addressing the findings from the PIR of IFRS 8. The Board considered the remaining proposals and concluded that they would not result in sufficient improvements in information to investors to justify the additional costs stakeholders would incur if the Board were to proceed with these proposed amendments.³

Objective of this Project Summary

This Project Summary sets out the Board's rationale for not proceeding with the proposals in the Exposure Draft.

1 The Feedback Statement is available at: <https://www.ifrs.org/-/media/project/pir-ifs-8/educational-material/pir-ifs-8-operating-segments-feedback-statement.pdf>.

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

3 The Board's discussion is summarised in the IASB Update for March 2018 which is available at: <https://www.ifrs.org/news-and-events/updates/iasb-updates/march-2018>

Overview of this Project Summary continued

Why the Board issued the Exposure Draft

The Board issued the Exposure Draft to address the findings from the PIR of IFRS 8.

The PIR of IFRS 8 concluded that the benefits of applying the Standard were largely as expected and that overall the Standard had achieved its objectives and improved financial reporting. However, some areas for potential improvement were identified. The Board intended to address these areas in the Exposure Draft.

Summary of proposed amendments in the Exposure Draft

The Exposure Draft proposed amendments that focused on the areas identified for potential improvement, including:

- Clarifying how to identify the chief operating decision maker (CODM).
- Disclosing the title and description of the role of the CODM.
- Requiring disclosures explaining differences in segments disclosed in the financial statements and other parts of the annual reporting package.
- Providing additional illustrative examples to clarify the application of the aggregation criteria.
- Clarifying that additional segment information may be disclosed.
- Requiring additional detail in explanations of reconciling items.
- Requiring earlier presentation of restated interim information.

The Board did not propose to change the management approach⁴ to segment reporting.

Summary of feedback on the Exposure Draft

- Investors generally called for more significant changes to IFRS 8 than those proposed in the Exposure Draft.
- Preparers questioned whether all of the proposed amendments would improve financial reporting.
- Other stakeholder groups sought more clarification on certain aspects of the proposed amendments and some questioned whether the benefits of implementing the proposed amendments outweighed the costs.

⁴ The management approach reflects the way management regards an entity. This approach focuses on information about the components of the business that management uses to make decisions about operating matters.

Overview of this Project Summary continued

Approach to analysing the feedback on the Exposure Draft

In its analysis of the feedback on the Exposure Draft, the Board considered:

- comment letters responding to the Exposure Draft;
- discussions with its consultative groups;
- insights from additional outreach activities; and
- activities of other standard-setters including the US Financial Accounting Standards Board segments project on aggregation criteria and segment disclosure requirements.

Conclusion

The Board decided not to proceed with the proposed amendments to IFRS 8.

The Board agreed with the feedback received that the proposed amendments to clarify how to identify the CODM and to provide additional illustrative examples to clarify the application of the aggregation criteria would not be effective in addressing the PIR findings.

The Board also agreed with the feedback received that an entity may provide additional disclosures on segment information and therefore the proposed amendment was unnecessary.

The Board decided that the proposal to require an explanation of differences in the segments disclosed in the financial statements and other parts of the annual reporting package required further development, including investigating the possibility of narrowing the scope of the proposal to address concerns raised.

The Board initially supported proceeding with the remaining proposals, which included:

- (a) requiring disclosure of the title and description of the role of the CODM;
- (b) improving disclosure 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; and
- (c) enhancing interim reporting by requiring earlier presentation of restated interim information.

The Board, taking into consideration it had decided not to proceed with the proposed amendments to clarify (1) how to identify the CODM; (2) how to apply the aggregation criteria; and (3) that additional segment information may be disclosed, concluded that the remaining proposals would not result in sufficient improvements in information to justify the additional costs stakeholders would incur if the Board were to proceed with these proposed amendments.

Project history

Development of IFRS 8	<p>IFRS 8 resulted from a project to improve the alignment of the segment reporting requirements in IFRS Standards with those in US GAAP. IFRS 8 is based on the management approach and was designed to enable users of financial statements to see an entity's operations through the eyes of management. In addition, the Board observed that IFRS 8 should reduce the cost to preparers of providing disaggregated information because it requires the disclosure of segment information already generated for management's use.</p>
Post-implementation Review	<p>A PIR provides an opportunity to assess a new Standard's effect on interested parties. As part of a PIR, the Board may publish a Request for Information (RFI) setting out matters on which it seeks feedback. The Board presents its findings in a public report after deliberations of feedback on the RFI, along with evidence and information from additional analysis. There is no presumption that a PIR will lead to changes in a Standard. However, the Board may consider making minor amendments or propose an agenda item to consider broader revisions of a Standard.</p> <p>IFRS 8 was the first Standard that was subject to a PIR by the Board. In order to help set the objective and scope of the PIR, the Board conducted targeted outreach before it published the RFI. Sixty-two comment letters were received in response to the RFI and this feedback was considered alongside information obtained through consultation with stakeholders and a review of academic research.</p> <p>Following consideration of the feedback, the Board published the Feedback Statement. The Feedback Statement provided an assessment of the effect of implementing IFRS 8 and the proposed areas for improvement.</p>
Findings of the Post-implementation Review	<p>The overall conclusion reached in the PIR was that the benefits of applying the Standard were largely as expected and IFRS 8 had achieved its objectives and improved financial reporting. The findings from the PIR indicated that preparers generally thought the Standard worked well. However, some investors had concerns about the information provided when segment information is disclosed in accordance with IFRS 8.</p> <p>Although the Board did not think that those concerns warranted a revision of the principles on which IFRS 8 is based, it concluded that there were some areas for potential improvement.</p> <p>Given the overall conclusion reached in the PIR of IFRS 8, the Board decided to focus only on specific areas for potential improvement to IFRS 8.</p>

Project history continued

The Exposure Draft

In response to the PIR findings, in March 2017, the Board issued the Exposure Draft, which included nine proposed amendments. The overall objective of the proposals was to address the findings in the PIR by clarifying or enhancing particular requirements of IFRS 8, thereby improving the quality of segment information disclosed in the financial statements. More specifically, the proposed amendments aimed to:

- emphasise that the CODM's function is to make operating decisions and decisions about allocating resources to, and assessing the performance of, the operating segments of an entity;
- expand on existing IFRS 8 requirements and clarify that the CODM may be either an individual or a group;
- provide guidance on identifying the CODM when an entity has non-executive directors;
- provide transparency by requiring the disclosure of the title and description of the role of the individual or group identified as the CODM;
- improve consistency between segments disclosed in the financial statements and other parts of the annual reporting package, by requiring disclosures explaining differences;
- clarify the application of the aggregation criteria by providing additional illustrative examples of similar economic characteristics;
- clarify that segment information, in addition to that reviewed by, or regularly provided to, the CODM may be disclosed;
- clarify that reconciling items of the amounts disclosed for reportable segments and the amounts reported in the statement of financial position and statement of comprehensive income should be explained in sufficient detail to enable users of financial statements to understand the nature of the reconciling items; and
- enhance interim reporting by requiring earlier presentation of restated interim information.

Project history continued

Feedback on Exposure Draft

The Board received 76 comment letters in response to the Exposure Draft. Investors generally called for the Board to introduce more significant changes than those proposed in the Exposure Draft. Other stakeholders requested more clarification on certain aspects of the proposed amendments. Some stakeholders questioned whether the benefits of implementing the proposed amendments outweighed the costs. Preparers also questioned whether all of the proposed amendments would improve financial reporting.

Additional outreach

The Board considered the feedback in the comment letters and decided to consult with specific stakeholders to better understand the comments received. This additional outreach included:

- meetings with regulators from a number of jurisdictions; and
- discussions with the Accounting Standards Advisory Forum on alternative approaches to some of the amendments proposed in the Exposure Draft.

At its March 2018 meeting, the Board discussed the feedback on the Exposure Draft, including the findings from the additional outreach.

Decision-making process

The Board decided whether to proceed with, or perform further work on, the proposals in the Exposure Draft in two stages. First, the Board considered whether the feedback on each proposal indicated that the proposed amendment would be effective in addressing the PIR findings.

Secondly, the Board assessed whether, in aggregate, the proposals it initially supported proceeding with would justify the additional costs stakeholders would incur if the Board were to proceed with these proposed amendments.

Additional details of the proposed amendments, feedback and Board response are included in the next section of this Project Summary.

Detailed information

The following table summarises the PIR findings, Exposure Draft proposals, Exposure Draft feedback and the Board’s response.

Identifying the Chief Operating Decision Maker (CODM)			
PIR finding	Exposure Draft proposals	Exposure Draft feedback ⁵	Board response ⁶
Feedback from the PIR highlighted that identifying the CODM had proven difficult in practice.	<p>The Exposure Draft proposed three amendments aimed at clarifying how to identify the CODM:</p> <ul style="list-style-type: none"> • an amendment to emphasise that the CODM’s function is to make operating decisions and decisions about allocating resources to and assessing the performance of the operating segments of an entity; • an amendment expanding on existing IFRS 8 requirements and clarifying that the CODM may be either an individual or a group; and • an amendment to provide guidance on identifying the CODM when an entity has non-executive directors. 	<p>Most respondents to the Exposure Draft reported that these proposed amendments did not provide the clarity intended by the Board.</p> <p>Some respondents expressed a view that the proposed amendments could result in an entity identifying the CODM at a higher level of the entity’s organisational structure than would be the case currently, when applying IFRS 8. If this were to happen, the proposed amendments could reduce the number of segments reported in financial statements.</p> <p>Some respondents said the proposed amendments raised new questions about the role of the CODM. For example, some 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 operational or strategic.</p> <p>The comment letters combined with feedback from the additional outreach indicated that identifying the entity’s CODM was no longer considered to be a significant application issue. The additional outreach suggested practical solutions had been found to address the initial application issues subsequent to the PIR findings.</p>	<p>The Board decided not to proceed with these proposed amendments to clarify how to identify the CODM.</p> <p>The Board concluded that the proposed amendments did not provide the clarity that had been sought in the PIR.</p>

⁵ ‘Exposure Draft feedback’ represents comment letters as well as comments received during the staff’s additional outreach activities.

⁶ ‘Board response’ represents the majority view of the Board on each proposal. The Board ultimately decided not to proceed with any of the proposed amendments because it decided that when taken in aggregate, the proposals would not result in sufficient improvements in information to investors to justify the additional costs that stakeholders would incur if the Board were to proceed.

Detailed information continued

Disclosing the title and description of the role of the individual or group identified as the CODM			
PIR finding	Exposure Draft proposal	Exposure Draft feedback ⁵	Board response ⁶
<p>Feedback from the PIR suggested that users of financial statements would consider it helpful if the title of the CODM were disclosed in the financial statements.</p> <p>Users stated that such disclosure would provide useful insight into how an entity's business is run and how decisions are made.</p>	<p>The Exposure Draft included a proposal to require the disclosure of the title and description of the role of the individual or the group identified as the CODM.</p>	<p>Most respondents supported the proposed disclosure.</p> <p>A minority of respondents, including some standard-setting bodies and some accountancy bodies, reported that such disclosure would not provide useful information. In addition, some of those respondents said the proposed disclosure could contribute to disclosure overload.</p>	<p>The Board initially supported proceeding with the proposed disclosure.</p>

Detailed information continued

Explaining any differences between segment information in the financial statements and in other parts of the entity's annual reporting package			
PIR finding	Exposure Draft proposal	Exposure Draft feedback ⁵	Board response ⁶
<p>The Board expected that IFRS 8 would improve consistency of information between segments disclosed in the financial statements and other parts of the annual reporting package, including the management commentary.</p> <p>The Board anticipated this would improve the usefulness of the segment information presented in financial statements.</p> <p>Feedback from the PIR indicated this anticipated improvement had not occurred. The PIR also revealed a lack of explanation of any differences between the financial statements and other parts of the annual reporting package, including the management commentary.</p>	<p>The Exposure Draft included a proposal to require disclosures explaining differences in segments disclosed in the financial statements and other parts of the annual reporting package.</p> <p>The Exposure Draft proposed a definition of the annual reporting package.</p>	<p>Investors and regulators generally supported the proposed amendment, expressing a view that additional disclosure would provide useful information.</p> <p>Preparers and national standard-setters as well as accounting firms and accounting bodies were not supportive of the proposed amendment. They challenged the application of the proposed amendment, especially in relation to documents outside the annual report.</p> <p>Some respondents who did not support the proposed amendment also suggested the issue to be resolved was an enforcement matter and not a standard-setting matter.</p>	<p>The Board initially supported proceeding with the proposed amendment but acknowledged the concerns raised by some stakeholders related to the scope of the proposal.</p> <p>The Board intended to proceed by investigating the possibility of narrowing the scope of the proposal to address concerns raised.</p>

Detailed information continued

Providing additional illustrative examples of similar economic characteristics to clarify the application of the aggregation criteria			
PIR finding	Exposure Draft proposal	Exposure Draft feedback ⁵	Board response ⁶
<p>IFRS 8 permits operating segments to be aggregated into reportable segments when the operating segments share similar economic characteristics.</p> <p>The PIR found that preparers experienced difficulties in determining when operating segments can be aggregated into reportable segments.</p> <p>The PIR also identified that some investors considered that too many operating segments were being aggregated.</p>	<p>The Exposure Draft included a proposal aimed at clarifying the application of the aggregation criteria by providing additional illustrative examples of similar economic characteristics.</p>	<p>Some respondents were supportive of the proposal to include additional illustrative examples in IFRS 8. However, those respondents stated that the illustrative examples provided still did not fully resolve the difficulties in determining when operating segments can be aggregated into reportable segments.</p> <p>Respondents also said that including additional illustrative examples did not resolve the difficulties with assessing the relative importance of the factors to be considered in determining when operating segments share similar economic characteristics.</p> <p>Several respondents stated that it would be helpful to provide a basis for assessing the relative importance of the economic characteristics. For example, they suggested that economic characteristics should have greater importance if they are the measures that are most relevant to the CODM.</p>	<p>The Board acknowledged that including additional illustrative examples may not resolve the difficulties the PIR identified regarding the aggregation of operating segments. Consequently, the Board decided not to proceed with the proposed amendment.</p>

Detailed information continued

Disclosing additional segment information			
PIR finding	Exposure Draft proposal	Exposure Draft feedback ⁵	Board response ⁶
<p>Feedback from the PIR indicated that many users of financial statements thought 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 Exposure Draft 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 satisfy the core principle in paragraphs 1 and 20 of IFRS 8.</p> <p>The Board did not propose to mandate disclosures of specific items because to do so would be inconsistent with the management approach underlying IFRS 8.</p>	<p>Respondents' comments included:</p> <ul style="list-style-type: none"> • It is unnecessary to provide the clarification in IFRS 8 as IFRS Standards already permit additional disclosure. • The proposed amendment goes beyond the management approach. These respondents also expressed a view that this proposed amendment could lead to an increased use of non-GAAP measures in financial statements. • If such information is included in the financial statements, the disclosure should also state that the CODM did not regularly review the additional information. 	<p>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 IFRS Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.</p> <p>The Board agreed with respondents that it was unnecessary to provide clarification in IFRS 8, given the requirements in IAS 1. The Board acknowledged an entity was not prohibited from providing additional disclosures on segment information. Consequently, the Board decided not to proceed with the proposed amendment.</p>

Detailed information continued

Adding detail to explanations of reconciling items			
PIR finding	Exposure Draft proposal	Exposure Draft feedback ⁵	Board response ⁶
<p>Investors responding to the PIR stated that explanations of reconciliations of the amounts disclosed for reportable segments and the amounts reported in the statement of financial position and statement of comprehensive income seldom provided enough information to understand what the reconciling item represented. Consequently, it was difficult to understand the reasons for differences between information provided about reportable segments in the notes and the information provided in the primary financial statements.</p>	<p>The Exposure Draft included a proposal to clarify that reconciling items of the amounts disclosed for reportable segments and the amounts reported in the statement of financial position and statement of comprehensive income should be explained in sufficient detail to enable users of financial statements to understand the nature of the reconciling items.</p> <p>The Exposure Draft also proposed including more examples of reconciling items. The Board expected that including additional examples would facilitate better explanations of reconciling items.</p>	<p>Respondents generally supported this proposed amendment. The extra detail the additional explanations would provide was considered helpful to investors without being excessively burdensome for preparers.</p>	<p>The Board initially supported proceeding with the proposed amendment.</p>

Detailed information continued

Presenting restated information in interim reports			
PIR finding	Exposure Draft proposal	Exposure Draft feedback ⁵	Board response ⁶
Feedback from the PIR identified that users of financial statements would benefit from having restated interim information for the immediately preceding fiscal year at an earlier date when an entity changes its reportable segments.	<p>The Exposure Draft proposed to require that, in the event of a change in the reportable segments of an entity, information for all interim periods of the prior financial year(s) be restated in the first interim statements after the change in reportable segments.</p> <p>Some relief would be provided if the information was not available at that time and the cost to develop it would be excessive.</p>	<p>In general, respondents were supportive of the proposed amendments to IAS 34 <i>Interim Financial Reporting</i>. Respondents believed that providing information relating to the new structure at an earlier date would facilitate a better understanding of the new reporting structure.</p> <p>Some concerns were expressed about the proposed amendment and whether the benefits would exceed the cost of the amendment.</p>	The Board initially supported proceeding with the proposed amendment.



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Columbus Building | 7 Westferry Circus | Canary Wharf | London E14 4HD | United Kingdom

Telephone: +44 (0)20 7246 6410

Email: info@ifrs.org | Web: www.ifrs.org

Publications Department

Telephone: +44 (0)20 7332 2730

Email: publications@ifrs.org

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