

STAFF PAPER

March 2018

IASB Meeting

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| Project | Improvements to IFRS 8 <i>Operating Segments</i> arising from the post-implementation review |
| Paper topic | Cover paper: Approach to assessing the proposed amendments to IFRS 8 |

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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

Objective

1. The objective of this paper is to present to the Board the staff recommendations on how to proceed with the Exposure Draft *Improvements to IFRS 8 Operating Segments* (Proposed amendments to IFRS 8 and IAS 34) (Exposure Draft).
2. There are four papers accompanying this cover paper that provide an analysis of each of the proposed amendments in the Exposure Draft and staff recommendations on whether or not to proceed with a particular amendment(s). These accompanying papers are:
 - (a) Paper 27A—proposed amendments to the definition of the chief operating decision maker (CODM)
 - (b) Paper 27B—proposed amendment to link reportable segments with other parts of the annual reporting package
 - (c) Paper 27C—proposed amendment to the aggregation criteria for segments
 - (d) Paper 27D—proposed amendments for additional disclosures, reconciling items and interim financial statements.
3. Each of the above papers includes the staff recommendation on how to proceed with the specific proposed amendment for the Board’s consideration. However, in

view of the fact that there are nine proposed amendments related to segment reporting, we are also asking the Board to consider the direction for the project as a whole.

4. For example, if the Board tentatively decides that we should proceed with only one of the nine amendments, the Board could decide that the costs of amending IFRS 8 for this one amendment does not outweigh the benefits of this change.
5. Accordingly, in this paper we are asking the Board, if you agree with the overall recommendation proposed by the staff with respect to the proposed amendments and future direction of the project?
6. We will ask the Board this question after it has discussed the accompanying papers 27A-27D.

Structure of the paper

7. This paper is structured as follows:
 - (a) activities since November 2017 (paragraph 8);
 - (b) overall approach to developing recommendations (paragraphs 9-12);
 - (c) Post-implementation Review (PIR) findings (paragraphs 13-14);
 - (d) overview of the Exposure Draft proposals (paragraphs 15-17); and
 - (e) summary of staff recommendations (paragraphs 18-25).

Appendix – List of proposed amendments

Activities since November 2017

8. Since the Board meeting in November 2017, the staff have performed additional analysis and conducted outreach as follows:
 - (a) discussed the amendments with the Accounting Standards and Advisory Forum (ASAF) to obtain additional perspectives on the proposed amendments;
 - (b) developed alternative proposals for a number of the proposed amendments and presented these to ASAF to obtain their feedback;

- (c) held a series of meetings with different regulatory bodies to both obtain additional insights on the comments received and to obtain their preliminary views on alternative proposals developed by the staff; and
- (d) monitored developments elsewhere on the financial reporting landscape, most notably the work of the US Financial Accounting Standards Board (FASB) who added a project on segment reporting to its technical agenda in September 2017.

Overall approach to developing recommendations

9. In developing our recommendations to the Board, we have adhered to the principles the Board established when responding to the findings of the PIR and have not revisited the management approach, which underpins IFRS 8.
10. Adhering to the principles, that the Board established when responding to the findings of the PIR, has constrained the scope of our recommendations to the Board. This, however, has not stopped us from considering new information obtained during the course of our work. Such new information might arise from the passage of time and from related financial reporting projects initiated by other standard-setters.
11. The Board published the Feedback Statement to the PIR of IFRS 8 in July 2013 and the Exposure Draft of proposed amendments to IFRS 8 and IAS 34 *Interim Financial Reporting* in March 2017. By the time the Board published the Exposure Draft, stakeholders have experienced several years of application of IFRS 8. In the staff's view, this passage of time has resulted in responses received to some of the proposed amendments being different from that anticipated. We think this is because practical solutions have been found to some of the issues identified in the PIR.
12. Consequently, in the development of our recommendations to the Board we have considered both the more recent feedback received, as well as the original findings from the PIR.

PIR findings

13. The Feedback Statement to the PIR of IFRS 8 reported that overall the Standard had achieved its objectives and improved financial reporting. The Feedback Statement also reported that some investors have concerns about the information provided when segment information is disclosed in accordance with IFRS 8. While no revision of the principles of the Standard was considered necessary, some areas were identified for potential improvements that could be (and ultimately were) considered.
14. The Board published the Exposure Draft in March 2017, which aimed to respond to the PIR findings.

Overview of the Exposure Draft proposals

15. The Exposure Draft included nine proposed amendments, one of which was an amendment to the segment reporting requirements in interim financial statements addressed by IAS 34. The overall theme behind all of the proposals was clarifying particular requirements of IFRS 8 in order to improve the overall quality of segment information disclosed in the financial statements.
16. The appendix of this paper lists the nine amendments proposed in the Exposure Draft in summary form and identifies the corresponding paper in this package that contains the staff analysis and recommendation for each proposed amendment.
17. At the Board meeting in November 2017, the staff presented a summary of comment letter and other feedback received (feedback summary).¹ Nearly all respondents supported the Board's intention to improve segment reporting. Nevertheless:
 - (a) investors who responded to the Exposure Draft encouraged the Board to make more significant changes; and
 - (b) preparers, national standard-setters, accounting firms, accounting associations and regulators often sought more clarification on the proposed

¹ You can find the Feedback Summary on our website: <http://www.ifrs.org/-/media/feature/meetings/2017/november/iasb/improvements-to-ifrs-8/ap27b-feedback-proposed-amendments.pdf>

amendments and questioned whether the benefits outweighed the costs of the proposals.

Summary of staff recommendations

18. In developing our staff recommendations for the individual proposals in the Exposure Draft, we considered two questions in each of the papers 27A-27D that aim to ensure the findings from the PIR are addressed;
 - (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)?
19. Based on these questions, the staff made a recommendation on whether or not to proceed with a specific proposed amendment. We also made a recommendation, in some instances, on further actions that could be taken.
20. As described earlier in this paper, the staff have made recommendations on individual proposed amendments, and are asking the Board to do the same. However, in our view, the project ultimately has to be evaluated at a holistic level to determine the appropriate next steps for the project as a whole.

21. The table below summarises the staff recommendations on the individual proposed amendments:

| | Description | Staff recommendation |
|---|---|--|
| 1 | CODM: Emphasize that the CODM is a function that makes operating decisions and decisions about allocating resources and assessing performance | Do not proceed with the proposed amendment. No further work is proposed. |
| 2 | CODM: Further explain that the CODM can be an individual or a group | |
| 3 | CODM: Explain the role of non-executive members | |
| 4 | CODM: Disclose title and description of the CODM role | Proceed with the proposed disclosure, subject to drafting. |
| 5 | Annual reporting package: Explanation of differences | Proceed with the proposed amendment but limit the scope to the annual report. |
| 6 | Aggregation criteria: Add examples of similar economic characteristics | Do not proceed with the proposed amendment, at this time, but monitor the FASB project it is undertaking specifically on the aggregation criteria. |
| 7 | Disclosure of additional segment information | Do not proceed with the proposed amendment. |
| 8 | Additional detail in explanations of reconciling items | Proceed with the proposed amendment. |
| 9 | Interim reporting: Earlier presentation of restated information | Proceed with the proposed amendment. |

22. We suggest, having discussed the accompanying papers 27A-27D, the Board considers the project direction taking a holistic view. The staff have identified the following possible courses of action:

- (a) Bring the project to conclusion without moving forward on any of the proposed amendments.
- (b) Proceed with all those proposed amendments that the Board approves.

- (c) Proceed with those proposed amendments that the Board approves but monitor the developments of the FASB project on segment reporting, specifically on the aggregation criteria. The Board can then decide the appropriate direction for this project after taking into consideration the findings from the outreach by the FASB that is due to take place later in 2018.

Staff recommendation

23. Assuming the Board agree with the staff recommendations as set out in the table above, we recommend alternative (c). We think that it is important to monitor the FASB's project on segment reporting, specifically on the aggregation criteria, before proceeding with the proposed amendments that the staff recommend.
24. The staff do not see any particular urgency with implementing the proposed amendments and consider it more appropriate to amend IFRS 8 only once, as opposed to on a piecemeal basis.
25. We also note that if the Board follows the staff recommendation, IFRS 8 does not currently prohibit the proposed disclosures and therefore an entity could choose to apply the disclosures during the period that we continue to monitor the FASB project.

Question for Board members (after discussion of papers 27A-D)

Question

Do you agree with the overall recommendation proposed by the staff to proceed with those proposed amendments that the Board approves but monitor the developments of the FASB project on segment reporting, specifically on the aggregation criteria?

Appendix

List of proposals in the Exposure Draft

| Proposal | Description | Board Paper | Paragraphs in the Exposure Draft | Paragraphs in the Basis for Conclusions |
|----------|---|-------------|----------------------------------|---|
| 1 | CODM: Emphasize that the CODM is a function that makes operating decisions and decisions about allocating resources | 27A | 7 | BC4-BC7 |
| 2 | CODM: Further explain that the CODM can be an individual or a group | 27A | 7A, 7B | BC8-BC9 |
| 3 | CODM: Explain the role of non-executive members | 27A | 7A, 7B | BC10-BC12 |
| 4 | CODM: Disclose title and description of the CODM role | 27A | 22(c) | BC24-BC25 |
| 5 | Annual reporting package: Explanation of differences | 27B | 22(d) | BC13-BC19 |
| 6 | Aggregation criteria: Add examples of similar economic characteristics | 27C | 12, 12A | BC20-BC24 |
| 7 | Disclosure of additional segment information | 27D | 20A | BC27-BC31 |
| 8 | Additional detail in explanations of reconciling items | 27D | 28A | BC32-BC37 |
| 9 | Interim reporting: Earlier presentation of restated information | 27D | 45A of IAS 34 | BC2-BC10 |