

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

24 July 2017

Dear Mr Hoogervorst

I am writing on behalf of the UK Financial Reporting Council (FRC) to comment on the Exposure Draft ED/2017/2 *Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)*.

We support the proposal to include a requirement for entities to explain why segments identified in the financial statements differ from segments identified elsewhere. However, we have concerns that the comparison of segments is between the financial statements and the “annual reporting package”. We consider that this comparison is far too broad as it encompasses items outside of the annual report. Instead we believe the comparison should be between the segments identified in the financial statements and the annual report.

We generally agree with the other proposals in the Exposure Draft, but we do not believe that the proposal to clarify the determination of the chief operating decision maker (CODM) has achieved its aim as it does not clarify that having some influence over operating decisions is sufficient for the Board to be the CODM.

Our detailed responses to the questions are included in the Appendix to this letter.

If you would like to discuss these comments, please contact me or Annette Davis (a.davis@frc.org.uk) on 020 7492 2322.

Yours sincerely



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Appendix: Questions

Question 1

The Board proposes to amend the description of the chief operating decision maker with amendments in paragraphs 7, 7A and 7B of IFRS 8 to clarify that:

- (a) the chief operating decision maker is the function that makes operating decisions and decisions about allocating resources to, and assessing the performance of, the operating segments of an entity;
- (b) the function of the chief operating decision maker may be carried out by an individual or a group—this will depend on how the entity is managed and may be influenced by corporate governance requirements; and
- (c) a group can be identified as a chief operating decision maker even if it includes members who do not participate in all decisions made by the group (see paragraphs BC4–BC12 of the Basis for Conclusions on the proposed amendments to IFRS 8).

The Board also proposes in paragraph 22(c) of IFRS 8 that an entity shall disclose the title and description of the role of the individual or the group identified as the chief operating decision maker (see paragraphs BC25–BC26 of the Basis for Conclusions on the proposed amendments to IFRS 8).

Do you agree with the proposed amendments? Why or why not? If not, what do you propose and why?

Question 1(a)—CODM function

- A1 We agree that part of the function of the chief operating decision maker (CODM) is to make operating decisions. We note that paragraph BC6 says that many respondents to the post-implementation review considered decisions about allocation of resources to be strategic. The proposed amendment does not appear to address this issue because it does not clarify whether the role of the CODM can include making strategic decisions which is implied by retaining the phrase "...decisions about allocating resources...".

Question 1(b)—CODM can be individual or group

- A2 We agree that the CODM is a function and can be either an individual or a group and may be influenced by jurisdictional corporate governance requirements.

Question 1(c)—CODM can include non-executive members

- A3 We believe there can be a grey area or overlap between operating and strategic decisions. For example, the decision to approve a new item of plant could have elements of both types of decisions as the specific machine chosen must be compatible with existing plant and has also been chosen so that the entity has the capability to expand its product range. In the UK, the unitary Board can make operating decisions directly or through non-executive directors challenging the proposals of the executive directors. Consequently, the Board of Directors can be the CODM even though it also sets the entity's strategic aims. However, the addition of paragraph 7B does not clarify that having some influence over operating decisions is sufficient for the Board to be the CODM and instead has the potential to confuse.

Disclosure of CODM title and description of role

- A4 We agree with the proposal to require disclosure an entity to disclose the title and description of the role of the CODM.

Question 2

In respect of identifying reportable segments, the Board proposes the following amendments:

- (a) adding a requirement in paragraph 22(d) to disclose an explanation of why segments identified in the financial statements differ from segments identified in other parts of the entity's annual reporting package (see paragraphs BC13–BC19 of the Basis for Conclusions on the proposed amendments to IFRS 8); and
- (b) adding further examples to the aggregation criteria in paragraph 12A of IFRS 8 to help with assessing whether two segments exhibit similar long-term financial performance across a range of measures (see paragraphs BC20–BC24 of the Basis for Conclusions on the proposed amendments to IFRS 8).

Do you agree with the proposed amendments? Why or why not? If not, what do you propose and why?

Question 2(a)—Disclosure where segments differ

- A5 In the work we undertook during the post-implementation review of IFRS 8, we found that investors expressed concerns when entities report segmental note disclosures that are different to, or inconsistent with, narrative disclosures outside of the financial statements. At that stage we recommended that IFRS 8 be amended to require explanation of any differences or inconsistencies between segmental note disclosures and narrative disclosures. Consequently, we support the proposal to include a requirement for entities to explain why segments identified in the financial statements differ from segments identified elsewhere.
- A6 However, we have concerns that the comparison of segments is between the financial statements and the “annual reporting package”. We consider that this comparison is far too broad as it encompasses items outside of the annual report. We note that the reason given in paragraph BC17 that it is too restrictive to compare the segmental note with the rest of the entity's annual report because segmental information is included in other information that users of financial statements use in evaluating an entity's activities. However, this ignores the fact that other sources of information, for example, regulatory filings usually have a different purpose than financial statements, the content of which are the responsibility of other regulatory authorities, and are not under the control of the entity.
- A7 Practical difficulties can also arise where the segments identified in an investor presentation have been tailored in response to a specific request and, as a result, are different to the segments identified in the financial statements. The entity makes the investor presentation publicly available a few days after the financial statements have been made publicly available. The entity will be unable to include an explanation for the difference in its financial statements because they have already been issued.
- A8 Consideration should be given to limiting the disclosure of differences in the disclosure of segments to the annual report as it usually has a similar purpose to that of the financial statements.

- A9 A further practical difficulty is likely to arise with the term “is published at approximately the same time”. How will this term be interpreted? For example, is a preliminary announcement published approximately five weeks before the annual report is published meet this criterion?
- A10 Before this proposal is finalised we consider some clarification as to what is meant by segments in the financial statements differing from segments identified elsewhere. For example, if an entity discloses a further disaggregation of the segments in its management commentary, is it necessary to explain this fact in the financial statements? After all, the disaggregation is likely to be useful information for users and is it necessary for this disaggregation to also be included in the financial statements?
- A11 We understand that others have interpreted the proposal for an explanation of, and the reasons for, the difference in reportable segments, to mean that a reconciliation is required. We consider that this point could be clarified so it is clear what is required to meet the objective of this disclosure requirement.

Question 2(b)—Aggregation criteria

- A12 We agree with the proposed additional examples to help in assessing whether segments should be aggregated.

Question 3

<p>The Board proposes a clarifying amendment in paragraph 20A of IFRS 8 to say that an entity may disclose segment information in addition to that reviewed by, or regularly provided to, the chief operating decision maker if that helps the entity to meet the core principle in paragraphs 1 and 20 of IFRS 8 (see paragraphs BC27–BC31 of the Basis for Conclusions on the proposed amendments to IFRS 8).</p>

<p>Do you agree with the proposed amendment? Why or why not? If not, what do you propose and why?</p>

- A13 We agree with the proposed amendment to highlight that additional segmental information not regularly given to, or reviewed by, the CODM should be given to meet the core principle of the standard. We consider that this clarification maintains the balance between providing more relevant information to users with the management approach underlying the standard.

Question 4

<p>The Board proposes a clarifying amendment in paragraph 28A of IFRS 8 to say that explanations are required to describe the reconciling items in sufficient detail to enable users of the financial statements to understand the nature of these reconciling items (see paragraphs BC32–BC37 of the Basis for Conclusions on the proposed amendments to IFRS 8).</p>
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<p>Do you agree with the proposed amendment? Why or why not? If not, what do you propose and why?</p>

- A14 We agree with the proposed amendment to highlight that explanations should be in sufficient detail to understand the nature of reconciling items for the same reason as given in Question 3.

Question 5

The Board proposes to amend IAS 34 to require that after a change in the composition of an entity's reportable segments, in the first interim report the entity shall 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 (see paragraphs BC2–BC10 of the Basis for Conclusions on the proposed amendments to IAS 34).

Do you agree with the proposed amendment? Why or why not? If not, what do you propose and why?

- A15 We agree with the proposed amendment to IAS 34 to require restatement of segment information for all interim periods after a change in the composition of an entity's reportable segments. 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.