

**IASB Exposure Draft ED/2017/2 Improvements to IFRS 8 *Operating Segments*
(Proposed amendments to IFRS 8 and IAS 34)**

Feedback to constituents – EFRAG Final Comment Letter

October 2017

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Introduction

Objective of this feedback statement

The IASB published its Exposure Draft ED/2017/2 *Improvements to IFRS 8 Operating Segments* (‘the ED’) on 29 March 2017. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments

were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter on 3 August 2017.

Background to the ED

The ED proposed a narrow-scope amendment to IFRS 8 *Operating Segments* in order to:

- clarify the role and function of the CODM and require disclosure of the title and description of the role of the individual or group identified as CODM;
- clarify and emphasise the criteria that must be met before operating segments can be aggregated;
- require an explanation of why segments identified in the financial statements differ from segments identified in other parts of an entity’s annual reporting package; and
- require an entity to restate segment information for all interim periods presented earlier (both of the current financial year and of prior financial years) in the first interim report following a change in the composition of an entity’s reportable segments.

Further details are available on the EFRAG [website](#).

EFRAG’s draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 26 April 2017. In the draft comment letter, EFRAG supported most of the amendments proposed in the ED, as they provide useful clarifications of the existing requirements in IFRS 8 and should therefore improve the quality of disclosure of operating segment information.

However, EFRAG expressed preliminary reservations over the proposal to require an entity to explain why the segments identified in an entity's financial statements are different to the segments reported outside the financial statements. EFRAG observed that the information provided by IFRS 8 reflects a management perspective approach which is expected to lead to greater consistency of segment information provided outside the financial statements, although this would not always be the case. Additionally, EFRAG commented that the proposed amendment risks creating a broader precedent in that future amendments to IFRS Standards might require entities to explain other differences between information reported inside and outside the financial statements.

EFRAG also expressed a concern that the proposed definition of an entity's 'annual reporting package' may prove difficult to apply in practice, in view of the variety of reporting requirements that apply at jurisdictional level. EFRAG suggested that it would be preferable to use already existing terminology in IFRS Standards such as “financial review” under IAS 1 *Presentation of Financial Statements*.

Summary of comments received from constituents

EFRAG received and considered thirteen comment letters from constituents which are listed in Appendix 1. These comment letters are available on the EFRAG [website](#).

The comment letters came from national standard setters, preparer organisations and a regulator (see Appendix 2).

Overall comments

The majority of respondents agreed with EFRAG’s overall tentative position on the ED. However, three respondents did not support

EFRAG’s draft comment letter as they did not think that the IASB should proceed with the proposed amendments.

Two of these respondents considered that the IASB should not proceed with the ED mainly because they did not agree with the proposal in paragraph 22(d) to require an explanation of consistency of information and did not think the remaining proposals were necessary or useful. One of these respondents did not support amending IFRS 8 before the debates on the IASB’s Principles of Disclosure Discussion Paper and Primary Financial Statements project were finalised. Another respondent was not convinced that the proposed amendments provide solutions for the issues that have been identified and considered that the proposed amendments are likely to create new implementation issues.

Role and function of the Chief Operating Decision Maker (CODM)

Seven respondents explicitly agreed with EFRAG’s view that the proposed amendment would clarify the description and the role of the CODM. The remaining respondents either did not think the amendments were necessary (because they are not aware of any difficulties or expressed different views on some aspects of the function of the CODM or sought additional clarifications on the proposed description.

Explanation of why segments differ, definition of annual reporting package and aggregation criteria

All but three respondents supported EFRAG’s position and disagreed with the IASB proposal, with some strongly disagreeing. Overall, the main reason for disagreement was that IFRS 8 is not the appropriate place for addressing the problem of segment information provided outside the financial statements. Two of the three respondents that

did not support the EFRAG position supported the IASB proposal and one respondent did not object to the proposed amendment.

Disclosure of segment information in addition to that regularly reviewed by, or regularly provided to, the CODM

Most respondents supported EFRAG's tentative position. However, two respondents disagreed with the proposal and therefore did not support EFRAG's tentative position.

Restate segment information for all interim periods presented earlier

Most respondents supported EFRAG's tentative position.

EFRAG's final comment letter

EFRAG issued its final comment letter on 3 August 2017.

EFRAG retained its overall position to generally support most of the amendments proposed in the ED, as they provide useful clarifications of the existing requirements in IFRS 8 and should therefore improve the quality of disclosure of operating segment information.

Regarding the proposal to explain why reportable segments identified in the financial statements differ from the segments identified outside the financial statements, as a result of the disagreement from some respondents, EFRAG strengthened its position in its final comment letter by stating that it disagrees with the proposal rather than saying that it had 'reservations'.

EFRAG noted that some respondents did not support or expressed some concerns regarding the proposal to add paragraph 12A to IFRS 8 to clarify the aggregation criteria and provide additional examples of 'similar economic characteristics'. However, EFRAG retained its

initial position as in its view the proposal reinforces the guidance in IFRS 8 and is therefore a helpful way to address users' concerns.

On the proposal to clarify in paragraph 20A of IFRS 8 that an entity may disclose more information than is required in paragraphs 23 and 24 if such additional disclosure helps the entity meet the core principle in IFRS 8, EFRAG acknowledged that the proposal might run contrary to the management approach that underlies IFRS 8. Nevertheless, EFRAG considered that the proposal is intended to be consistent with the core principle of IFRS 8, and therefore helpful to users of financial statements, even if the additional information is not reviewed by, or regularly provided to the CODM.

More details regarding EFRAG's analysis of comments received and how EFRAG considered these comments in developing its final comment letter are provided in the detailed analysis below.

Detailed analysis of issues, comments received and changes made to EFRAG’s final comment letter

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

EFRAG’s response to constituents’ comments

Identifying the chief operating decision maker (CODM)

Proposals in the ED

The ED proposed to clarify the role and function of the CODM as the one that makes operating decisions and decisions about allocating resources to, and assessing the performance of, the operating segments of an entity.

The ED also proposed to clarify that the CODM may be an individual or a group (such as a board of directors or a management committee). A group can be identified as a CODM even if it includes members, such as non-executive members, that do not participate in all the decisions that the CODM is authorised to make.

The ED proposed disclosure of the title and description of the role of the individual or the group that is identified as the CODM.

EFRAG’s tentative position

EFRAG generally agreed that the proposed amendments to clarify the description and the role of the CODM would be an improvement to IFRS 8.

EFRAG also agreed with the proposal to require an entity to disclose the title and description of the role of the CODM.

Constituents’ comments

Seven respondents explicitly agreed with EFRAG’s view that the proposed amendment would clarify the description and the role of the CODM. They expressed support for EFRAG’s position that the IASB

EFRAG final position

Considering the support received from respondents, EFRAG maintained its initial support for the amendment.

EFRAG considered the comment made by one respondent on potential difficulties in identifying the CODM when operating decisions and decisions about the allocation of resources are made by different individuals/groups on different levels in an entity’s hierarchy creates practical difficulties. However, as noted in EFRAG’s draft comment letter, judgement is required to identify the CODM, as the function may vary from entity to entity depending on facts and circumstances and also may be affected by jurisdictional legal and governance requirements. EFRAG retained the view that having specific guidance to identify the CODM in terms of level in the entity’s hierarchy would create a conflict with the management approach that underlies IFRS 8.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

should emphasise the operational function of the CODM and that being responsible for some strategic decisions would not preclude an individual or a group from being identified as the CODM. One of these respondents noted that technological developments made it possible for different formats of multi-dimensional financial information being made available to the CODM.

Three respondents did not disagree with the proposed amendment. However, they expressed some concerns that it was unclear whether the CODM had to perform all or only some of the tasks that were described in the ED such as making operating decisions, allocating resources or reviewing performance. One of these respondents highlighted that it could be difficult to identify the CODM when operating decisions and decisions about the allocation of resources are made by different individuals/groups on different hierarchy levels. Another noted that focusing only on operating decisions would make the description of the CODM too vague and would increase the risk of the CODM being identified at too low a level. This respondent also suggested that the proposed amendment was too prescriptive regarding requirements for identifying the CODM whose description was already disclosed somewhere else in the annual report.

Two respondents highlighted that they were not aware of any difficulties experienced by preparers in applying the existing requirements about identifying the CODM.

One respondent disagreed with the proposed amendment on the basis that it was unlikely that it would resolve the identified issues but would rather create new implementation problems.

EFRAG's response to constituents' comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Consistency and aggregation of reportable segments

Proposals in the ED

The ED proposed to add a requirement to disclose an explanation of why segments identified in the financial statements differ from segments identified in other parts of an entity’s annual reporting package.

The ED also proposed to add further examples of similar economic characteristics to the aggregation criteria already contained in IFRS 8 in order to help with the assessment of whether two segments exhibit similar long-term financial performance.

EFRAG’s tentative position

Whilst acknowledging the concerns expressed by users, EFRAG expressed reservations over the IASB’s proposal to require an entity to explain why the segments identified in an entity’s financial statements are different to the segments reported outside the entity’s financial statements.

EFRAG was also concerned that the proposal to define an entity’s annual reporting package in IFRS 8 may prove difficult to apply in practice.

EFRAG agreed with the proposed amendment to paragraph 12 of IFRS 8 to emphasise the criteria that must be satisfied before two or more operating segments may be aggregated.

EFRAG recommended that the IASB provides guidance on whether, and, if so how, different functional currencies could affect economic similarity

EFRAG’s response to constituents’ comments

EFRAG final position

Explaining why reportable segments in the financial statements are different to those reported outside of the financial statements

Given the strong support for EFRAG’s tentative position from some respondents, EFRAG strengthened its position by disagreeing with the proposal to explain when segments are different rather than saying that it has ‘reservations’. In addition, EFRAG enhanced support for disagreeing with the IASB proposal by noting that paragraphs 1 and 20 of IFRS 8 together already mandate consistency of information (although indirectly).

Constituents’ comments on definition of ‘annual reporting package’

Considering the comments received, EFRAG maintained its initial position.

Aggregation criteria (new paragraph 12A on similar economic characteristics)

Despite disagreement or reservations from some respondents, EFRAG decided not to change its initial position due to the concerns expressed by users on over-aggregation of operating segments. In EFRAG’s view, the proposal reinforces the guidance in IFRS 8 on segment aggregation and is therefore a helpful way to address users’ concerns.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

EFRAG’s response to constituents’ comments

when assessing the aggregation criteria in paragraph 12 and 12B of the ED.

Constituents’ comments

The proposal to explain why reportable segments in the financial statements are different to those reported outside the financial statements

Ten respondents disagreed with the proposed amendment to require an explanation of why segments identified inside and outside the financial statements were different. They generally supported EFRAG’s tentative view that the suggested disclosure requirement was crossing the boundaries of the IASB’s mandate and did not think that IFRS 8 is the appropriate place for addressing the problem of segment information provided outside the financial statements. Most of these respondents suggested that the IASB should address this issue in a broader project such as the Disclosure Initiative. One respondent referred to paragraph BC18 of the ED that identified that IFRS Standards set requirements for financial statements and not for management commentary and other reported information. This respondent also commented that paragraphs 1 and 20 of IFRS 8 together already mandate consistency of information (although indirectly). Another respondent held the same view, relying on IAS 1 paragraph 50.

Two respondents supported the proposed amendment as it would introduce discipline in preparing segment information, improve users’ understanding and eliminate any possible arbitrage between different documents.

One respondent did not object the proposed amendment. This respondent indicated that a solution to the issue may be to include an additional requirement that the key information on operating segments disclosed in

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

the financial statements cannot be more aggregated than the information provided in other parts of the annual report.

Definition of ‘annual reporting package’

Eleven respondents supported EFRAG’s view that introducing a definition for ‘annual reporting package’ could cause practical problems such as overlap with jurisdiction-specific definitions. Further, the term was also unclear; and the proposed requirement could unintentionally increase the scope of the audit to include information in other parts of the annual reporting package, which may go beyond the information included in the annual report. Additionally, the characteristic ‘at approximately the same time’ could result in divergent information being reported.

The remaining respondents did not comment on the proposed definition.

Aggregation criteria

Four respondents considered the proposed clarification of the aggregation criteria as being helpful and going in the right direction of improving enforceability. While not disagreeing, one of these respondents found that the wording of the proposed clarification in the ED and in its Basis for Conclusions were not aligned. It was unclear as to whether aggregation of operating segments would be precluded when only one long-term measure was similar or whether aggregation could be acceptable if most, but not all, of the long-term financial measures were similar.

One respondent did not object to the proposal but suggested that the IASB should add some illustrative examples. Another respondent questioned whether the IASB proposal would effectively address the issue that too much aggregation of segments takes place in practice. This respondent indicated that operating segments with economic characteristics should

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

normally have a range of measures in common, instead of depending on a single measure of financial performance.

Five respondents did not support the proposal to clarify the aggregation criteria. These respondents argued that the operating segments disclosed (reportable segments) might differ from the management approach in IFRS 8 and the proposed examples of similar economic characteristics were too simplistic and might be unsuitable in some circumstances. One of these respondents commented that the suggested examples were too narrow and might result in too much disaggregation.

The remaining respondents did not comment on the proposed aggregation criteria.

One respondent disagreed with EFRAG’s comment on the functional currency in relation to aggregation of operating segments.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Disclosure of other information

Proposals in the ED

The ED proposed to add new paragraph 20A to IFRS 8 to clarify that an entity may disclose more information than currently required by paragraphs 23 and 24 of IFRS 8 if such additional disclosure helps the entity to meet the core principle of the Standard.

EFRAG’s tentative position

EFRAG agreed with the proposed clarification in paragraph 20A of the ED.

Constituents’ comments

Three respondents agreed with the IASB proposal to add a requirement for entities to disclose information in addition to what is regularly reviewed by the CODM. Without disagreeing, one of these respondents cautioned that this requirement might go against the management approach in IFRS 8. This respondent suggested that an entity should flag any additional information which is disclosed but not reviewed by the CODM.

Four respondents did not oppose disclosing information which was not reviewed by, or regularly provided to the CODM. However, one of these respondents reiterated that the main objective of IFRS 8 is to disclose information reviewed by the CODM. Two of these respondents thought that the proposal was unnecessary as they thought that it is implicit in IFRS Standards that entities should provide any information relevant to an understanding of the financial statements. Consequently, the proposal may risk creating a view that additional information is not allowed under IFRS Standards unless specifically permitted.

EFRAG’s response to constituents’ comments

EFRAG final position

Because the majority of respondents did not oppose the proposal, and because it may result in useful information for users, EFRAG did not oppose the proposed clarification. EFRAG took the view that the proposal did not change the existing requirements in IFRS 8 even if it leads to disclosure of information that is not used by the CODM.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Two respondents disagreed with the proposed amendment on the basis that it might have some unintended consequences such as raising questions on why other Standards did not have similar disclosure requirements and whether this meant that, under other Standards, additional information was not allowed. These respondents also shared the view that information that was not reviewed or reported to the CODM would not improve the quality of the disclosures but would rather increase the risk of including alternative disclosures and performance measures which would create disclosure overload or lead to disclosure arbitrage.

One respondent disagreed with the proposal on the basis that it was unlikely that it would resolve the identified issues and were likely to create new implementation problems.

Three respondents did not comment on the proposed amendment.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Describing reconciling items in sufficient detail

Proposals in the ED

The ED proposed to add paragraph 28A to IFRS 8 to require a fuller explanation of the nature of individual reconciling items. This would enable users of financial statements to better understand the effect of these items on individual reportable segments.

EFRAG’s tentative position

EFRAG agreed with the proposed clarification in paragraph 28A of the ED.

Constituents’ comments

Eight respondents agreed with the proposed amendment to require entities to describe the reconciling items in sufficient detail. Without disagreeing, one of these respondents noted that paragraph 16 of IFRS 8 required information about other business activities and operating segments, which were not separately reportable, to be included in an ‘all other segments’ category.

One respondent did not object the amendment, however, expressed the view that there was an implicit requirement in IFRS Standards to clearly describe information in sufficient detail for users and therefore an explicit statement was not necessary.

One respondent disagreed with the proposal on the basis that it was unlikely that the proposed amendment would resolve the identified issues but would rather create new implementation problems.

Three respondents did not comment on the proposed amendment.

EFRAG’s response to constituents’ comments

EFRAG final position

EFRAG observed that there was support from respondents in support of its tentative position. EFRAG therefore decided to retain its initial position.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Restated segment information for interim periods under IAS 34

Proposals in the ED

The ED proposed to amend IAS 34 to require all interim periods presented earlier (current and prior financial years) to be restated and presented in the first interim financial report after a change in the composition of reportable segments, unless the information is not available and the cost to develop it would be excessive (this assessment would be made for each individual item of disclosure). The entity would need to disclose whether it has restated the segment information for earlier periods.

EFRAG’s tentative position

EFRAG agreed with the proposal to add paragraph 45A to IAS 34 requiring the restatement of previously reported interim periods when there is a change in the composition of an entity’s reportable segments.

Constituents’ comments

Nine respondents agreed with the proposal. However, one of these respondents considered that the amendment should be clarified and should not require retrospective application. This respondent noted that it would be more appropriate to require that ‘comparable’ information is disclosed instead of ‘restated segment information’.

One respondent disagreed with the proposal on the basis that it was unlikely that it would resolve the identified issues but would rather create new implementation problems.

Three respondents did not comment on the proposed amendment.

EFRAG’s response to constituents’ comments

EFRAG final position

Considering the support received from respondents, EFRAG Secretariat maintained its initial support for the proposed amendment.

Appendix 1: List of respondents

Table 1: List of respondents

<i>Name of constituent¹</i>	<i>Country</i>	<i>Type / Category</i>
Dutch Accounting Standards Board (DASB)	Netherlands	National Standard Setter
Accounting Standards Committee of Germany (ASCG)	Germany	National Standard Setter
Danish Accounting Standards Committee (FSR)	Denmark	National Standard Setter
Comissão de Normalização Contabilística (CNC)	Portugal	National Standard Setter
Norwegian Accounting Standards Board (NASB)	Norway	National Standard Setter
Polish Accounting Standards Committee (PASC)	Poland	National Standard Setter
Autorité des Normes Comptables (ANC)	France	National Standard Setter
Financial Reporting Council (FRC)	United Kingdom	National Standard Setter
Organismo Italiano de Contabilita (OIC)	Italy	National Standard Setter
European Securities and Markets Authority (ESMA)	Europe	Regulator
Insurance Europe	Europe	Preparer Organisation
Acteo	Europe	Preparer Organisation
BusinessEurope	Europe	Preparer Organisation

¹ Respondents whose comment letters were considered by the EFRAG Board before finalisation of the comment letter.

Appendix 2: Summary - respondents by country and by type

Respondent by country:		Respondent by type:	
Netherlands	1	National Standard Setters	9
Germany	1	Preparer Organisations	3
Denmark	1	Regulator	1
Portugal	1		
Norway	1		
Poland	1		
France	1		
Italy	1		
United Kingdom	1		
Europe	4		
	<u>13</u>		<u>13</u>