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IFRS 8 Operating Segments

Cover note and overview of comments received

Objective of the session

- 1 The purpose of this paper is to:
 - (a) consider the comments received in response to EFRAG's draft comment letter on the Exposure Draft ED/2017/2 Improvements to IFRS 8 *Operating Segments* – Proposed amendments to IFRS 8 and IAS 34 *Interim Financial Reporting* (the 'ED') and agree to recommend to the EFRAG Board a final comment letter; and
 - (b) approve an EFRAG Feedback Statement that summaries the comments received and explains how these comments were considered by EFRAG in developing its final comment letter.
- 2 Based on the comments received, the EFRAG Secretariat has developed a draft EFRAG final comment letter that is presented as agenda paper 06-04 (marked-up version) and 06-05 (clean version).

Purpose of this paper

- 3 This paper provides some background on the ED and a high level overview of EFRAG's preliminary views and comments received.
- 4 A detailed analysis of the comments received is provided in the [Draft] Feedback Statement (agenda paper 06-02), which also serves as a document for discussion of the comments received and reach agreement on how EFRAG's final comment letter should reflect the comments when they are different from those included in EFRAG's tentative position.
- 5 In the [Draft] Feedback Statement the proposed EFRAG response to constituents' comments represents the EFRAG Secretariat recommendation.

Background

- 6 The IASB issued the ED in March 2017 and requested comments by 31 July 2017. The ED addresses some improvements to IFRS 8 that were identified in the IASB's post-implementation review of IFRS 8, while staying converged with the equivalent US GAAP requirements.¹

¹IFRS 8 is substantially converged with the US GAAP equivalent literature Statement of Financial Accounting Standards (SFAS) 131 Disclosures about Segments of an Enterprise and Related Information (Accounting Standards Codification Topic 280 Segment Reporting), which was subject to a post-implementation review by the Financial Accounting Foundation (FAF) in 2012. Both the

- 7 The ED proposed the following clarifications and additions to IFRS 8 and IAS 34 and included questions to constituents on each of the proposals.
- (a) Question 1 - Clarify that the role and function of the chief operating decision maker (CODM) and require an entity to disclose the title and description of the role of the individual or the group that is identified as the CODM which may also include non-executive members.
 - (b) Question 2 - Add a requirement to explain why segments identified in the financial statements differ from segments identified in other parts of an entity's annual reporting package. Propose a definition of 'annual reporting package'. Add further examples of similar economic characteristics to the aggregation criteria in order to help with the assessment of whether two segments exhibit similar long-term financial performance.
 - (c) Question 3 - Clarify that an entity may disclose segment information in addition to that regularly reviewed by, or regularly provided to, the CODM.
 - (d) Question 4 - Clarify that reconciling items shall be given with sufficient detail in order to enable users of financial statements to understand their nature.
 - (e) Question 5 - Require an entity to restate segment information for all previous interim periods presented (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.

EFRAG's preliminary views

- 8 EFRAG published its draft comment letter on the ED on 26 April 2017 and requested comments by 17 July 2017. In its 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.
- 9 However, in response to the proposal to require an explanation of why segments differ in and outside of the financial statements (Question 2), EFRAG expressed 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 of the financial statements. In addition, EFRAG said that it was concerned that the proposed definition of an entity's 'annual reporting package' may prove difficult to apply in practice.
- 10 EFRAG supported the remaining proposed amendments but asked for clarifications on some of the proposals.

Summary of respondents' views

List of constituents

- 11 As at 18 July 2017, ten comment letters have been received responding to EFRAG's draft comment letter on the ED.

IASB and the FAF concluded that the management perspective in IFRS 8 is the correct basis on which to identify and provide information about operating segments.

List of constituents

Name of constituent	Country	Type / Category
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
Insurance Europe	Europe	Preparer Organisation
Organismo Italiano de Contabilita (OIC)	Italy	National Standard Setter
European Securities and Markets Authority	Europe	European Regulator

Overview of responses

- 12 A detailed analysis of comments received is provided in agenda paper 06-02 (Draft EFRAG Feedback Statement).
- 13 Most respondents agreed with EFRAG’s overall tentative position on the ED. However, some respondents expressed different views on some of the proposals.
- 14 One respondent did not support the EFRAG draft comment letter. This respondent was not convinced that the proposed amendments provide solutions for the issues that have been identified and feared that the proposed amendments are likely to create new implementation questions upon their introduction. For these reasons, this respondent is not in favour of adding examples and additional guidance to IFRS 8. This respondent advised the IASB not to proceed with these amendments.
- 15 Regarding the individual proposals, and respective questions, **there were different views and additional suggestions** expressed by some respondents on the **following main issues:**
- (a) *Question 1: Role and function of the CODM* – One respondent commented that the proposal was not clear about whether the individual or group to be identified as the CODM has to perform all three or only some tasks (making operating decisions, allocating resources, reviewing performance).
- One respondent commented that the formats in which the entities report financial information to their CODM have developed since the issuance of IFRS 8. The reporting has been more multi-dimensional thereby taking advantage of the new technological options. Different kind of financial information is now made more easily available and accessible for the CODM in many dimensions.
- Another respondent thought that the change in the definition is too vague and could increase risk that the CODM is person or body that performs the day to day operating decisions, instead of being the one focusing on strategic decisions taken. The change will modify the reportable operating segments. In the view of this respondent, the CODM should be person/body in charge of strategic decisions, allocating resources and should not be the one operating at lower level.
- (b) *Question 2: Explanation of why segments differ, definition of annual reporting package and aggregation criteria* – All but two respondents disagreed with the IASB proposal, with some strongly disagreeing. Some respondents cited

Cover note and summary and analysis of comments received

some additional arguments to those in EFRAG's draft comment letter why the proposal was inappropriate. 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. One respondent supported the proposal and another respondent did not object to it.

One respondent did not support EFRAG's recommendation to have more stringent criteria for segments' aggregation (new paragraph 12A in IFRS 8). A similar disagreement was cited by another respondent that commented that they do not consider that greater clarification should be added to the main body of IFRS 8 to interpret the meaning of the 'similar economic characteristics' aggregation criteria.

- (c) *Question 3: Disclosure of segment information in addition to that regularly reviewed by, or regularly provided to, the CODM* – Two respondents disagreed with the proposal to add the new paragraph 20A to IFRS 8 to allow disclosure of information not reviewed by or regularly provided to the CODM.

One respondent commented that the proposal was not necessary. Another respondent said it did not oppose the proposal but cautioned about adding more information to IFRS 8 in view of the main objective of the Standard. Another respondent supported the proposal but noted that it might be in conflict with the general principle of IFRS 8 (management approach).

- (d) *Question 5: Restate segment information for all interim periods presented earlier* – Some respondents commented that the proposal is relevant for other situations where comparatives are stated and asked the IASB to consider these other situations.

One respondent thought that the proposal could be part of a broader discussion on the further improvements to IAS 34, not merely related to changes in segment information.

One respondent commented that the amendment could be clarified in terms of which quarterly periods should be restated and presented.

- (e) *Transition and effective date* - One respondent commented that the proposed amendments to IFRS 8 should not require retrospective application.

Questions to EFRAG TEG

- 16 Does EFRAG TEG agree with EFRAG Secretariat's recommendations in the draft Feedback Statement presented as agenda paper 06-02?
- 17 Does EFRAG TEG agree with the proposed draft of EFRAG's final comment letter presented as agenda paper 06-04? If not what changes are necessary?

Accompanying agenda papers

- 18 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 06-02 – [Draft] EFRAG Feedback Statement;
 - (b) Agenda paper 06-03 – Responses received from constituents;
 - (c) Agenda paper 06-04 – Marked-up version of the proposed final comment letter;
 - (d) Agenda paper 06-05 – Clean version of the proposed final comment letter; and

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- (e) Agenda paper 06-06 – The IASB’s ED (for background).