

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**

July 2017

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

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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.

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. In EFRAG’s preliminary view, 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. Additionally, EFRAG commented that the proposed amendment risks creating a broader precedent that future amendments to IFRSs might require entities to explain other differences between information reported inside and outside the IFRS 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 national/ 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*.

Comments received from constituents

EFRAG received and considered ten comment letters from constituents. These comment letters are available on the [EFRAG website](#).

The comment letters came from national standard setters, an association of preparers and a regulator.

Most respondents agreed with EFRAG’s overall tentative position on the ED. However, some respondents expressed different views on some of the proposals.

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 considered 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.

Role and function of the CODM

Six respondents explicitly agreed with EFRAG’s view that the proposed amendment would clarify the description and the role 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, and as a result different kinds 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 a person or body that performs the day to day operating decisions, instead of being the one focusing on strategic decisions.

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

All respondents except one supported EFRAG's position and disagreed with the IASB proposal, with some strongly disagreeing. Some respondents cited 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.

Two respondents did not support EFRAG's position to have more stringent criteria for segments' aggregation (proposed new paragraph 12A in IFRS 8).

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. Comments from other constituents included:

- the proposal was not necessary;
- without opposing the proposal, cautioned about adding more information to IFRS 8 in view of the main objective of the Standard; and
- while supporting the proposal, noted that it might be in conflict with the general principle of IFRS 8 (management approach).

Restate segment information for all interim periods presented earlier

Most respondents supported EFRAG's tentative position. Some respondents commented that the proposal is relevant for other situations where comparatives are stated. One of these respondents 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. Furthermore, one respondent commented that the amendment could be clarified in terms of which quarterly periods should be restated and presented.

Transition and effective date

One respondent commented that the proposed amendments to IFRS 8 should not require retrospective application.

EFRAG's [proposed] final comment letter

EFRAG issued its final comment letter on **XX 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, EFRAG observed that some respondents strongly disagreed with the proposal. As a result, EFRAG strengthened its position in its final comment letter by stating that it disagrees with the proposal rather than saying that it has 'reservations'. In addition, EFRAG added additional arguments to support its disagreement.

EFRAG acknowledged 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.

Some respondents did not agree with EFRAG’s position to support 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

Proposed 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 also required an entity to disclose 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 chief operating decision maker (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

Six respondents explicitly agreed with EFRAG’s view that the proposed amendment would clarify the description and the role of the CODM. They

[Proposed] EFRAG final position [EFRAG Secretariat view]

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

EFRAG Secretariat comment for EFRAG TEG

The EFRAG Secretariat thinks that 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 is a valid one as in practice this is likely to be the case. 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. We therefore think 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.

Does EFRAG TEG consider that the final comment letter should reflect this view?

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Proposed EFRAG's response to constituents' comments

expressed support for EFRAG's position that the IASB should emphasise the operational function of the CODM and being responsible for some strategic decisions would not preclude an individual or a group of being identified as the CODM. One respondent further commented that technological developments made it possible for different formats of multi-dimensional financial information being made available to the CODM.

The other 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 respondent 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.

While not disagreeing, one respondent commented 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.

One respondent disagreed with the proposed amendments to IFRS 8 on the basis that it was unlikely that the proposed amendments would resolve the identified issues but would rather create new implementation problems.

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

Proposed EFRAG’s response to 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 some guidance on whether, and, if so how, different functional currencies could affect

[Proposed] EFRAG final position [EFRAG Secretariat view]

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

EFRAG observed that there was strong support from respondents for its tentative position. EFRAG therefore retained its initial position.

Given the strong disagreement from some respondents, EFRAG strengthened its position by stating that it disagrees 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 (though 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/reservations expressed 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

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

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

Constituents’ comments on explaining why reportable segments in the financial statements are different to those reported outside the financial statements

Seven 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 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 those respondents suggested that the IASB should address this issue in a broader project such as *Disclosure Initiative*. One respondent supported its position by referring to paragraph BC18 of the ED: *‘IFRS Standards set requirements for financial statements and not for management commentary and other reported information. Consequently, the Board concluded that it was not in a position to mandate consistency in the identification of segments between the financial statements, the management commentary and other reported information.’* This respondent also commented that paragraphs 1 and 20 of IFRS 8 together already mandate consistency of information (though indirectly). Another respondent commented that IAS 1 paragraph 50 clarifying that: *‘IFRSs only apply to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document.’*

One respondent expressed strong support for the amendment to require consistency between segment information presented inside and outside

Proposed EFRAG’s response to constituents’ comments

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

the financial statements as this 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 additional requirement that the information regarding the key information on operating segments disclosed in the financial statements cannot be more aggregated than the information provided in other parts of the report.

Constituents’ comments on definition of ‘Annual reporting package’

Nine respondents strongly supported EFRAG’s view that introducing a definition for ‘*annual reporting package*’ could cause practical problems such as overlap with jurisdiction-specific definitions. The term was also seen as too broad and unclear; and the proposed requirement potentially would unintentionally increase the audit scope requiring auditors to consider and audit 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 be interpreted differently and might result in divergent information being reported.

Constituents’ comments on aggregation criteria

Three 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 respondent 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

Proposed EFRAG’s response to constituents’ comments

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

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

Two respondents did not support the proposal to add greater clarification to the aggregation criteria as the operating segments disclosed (reportable segments) might differ from the management approach in IFRS 8. One respondent commented that the suggested examples were too narrow and might result in too much disaggregation.

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

Two respondents did not respond to this question.

One respondent disagreed with the proposed amendments to IFRS 8 on the basis that it was unlikely that the proposed amendments would resolve the identified issues but would rather create new implementation problems.

Proposed EFRAG’s response to constituents’ comments

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

Proposed EFRAG’s response to 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 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

Two respondents in principle 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 the respondents cautioned that this requirement might go against the general principle of management approach in IFRS 8. This respondent suggested that an entity should flag any information which is additionally disclosed but not reviewed by the CODM.

Two respondents did not oppose disclosing information which was not reviewed by, or regularly provided to the CODM. However, one of the respondents reiterated that the main objective of IFRS 8 is to disclose information reflecting the information reviewed by the CODM and suggested that the amendment should mention that any additional information should be limited to financial information and should follow the IFRS 8 and IAS 1 requirements.

[Proposed] EFRAG final position [EFRAG Secretariat view]

EFRAG Secretariat observed that despite the fact that in principle the proposed amendment would result in additional information being provided to users, there was support from the few respondents who directly addressed the issue and opposition from two respondents. There were two main reasons for the opposition to the proposal: disclosing segment information that was not reviewed by or regularly provided to the CODM conflicted with the management approach in IFRS 8; and general disclosure requirements already exist in paragraph 20 of IFRS 8 which would ensure that users’ information needs would be met.

EFRAG Secretariat comment for EFRAG TEG

Based on the feedback received from respondents, EFRAG Secretariat considered that EFRAG’s initial position on the amendment might need to be less supportive.

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

Two respondents disagreed with the proposed amendment. Their arguments were based on the concern that the proposed amendment might have some unintended consequences such as raising questions on why other standards did not have similar disclosure requirements and whether this meant that in relation to other standards additional information was not allowed. The respondents also shared the view that additional 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.

Three respondents did not comment on the proposed amendment.

One respondent disagreed with the proposed amendments to IFRS 8 on the basis that it was unlikely that the proposed amendments would resolve the identified issues but would rather create new implementation problems.

Proposed EFRAG’s response to constituents’ comments

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

Proposed EFRAG’s response to constituents’ comments

Describing the 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

Six respondents agreed with the proposed amendment to require entities to describe the reconciling items in sufficient details. Without disagreeing, one of respondent 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 ‘all other segments’ category. The same respondent made a suggestion to improve the requirements in paragraph 28 by including a reference to such business activities and operating segments and explain in the basis for conclusions that those non-revenue generating categories would neither qualify as operating segments, nor as other business activities and therefore should not be disclosed as part of ‘all other segments’, but they should be disclosed as part of the reconciling items.

Three respondents did not comment on the proposed amendment.

[Proposed] EFRAG final position [EFRAG Secretariat view]

EFRAG observed that there was strong 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

Proposed EFRAG’s response to constituents’ comments

One respondent disagreed with the proposed amendments to IFRS 8 on the basis that it was unlikely that the proposed amendments would resolve the identified issues but would rather create new implementation problems.

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

Proposed EFRAG’s response to constituents’ comments

Restated segment information for all 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. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. The entity shall 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 regarding the restatement of previously reported interim periods when there is a change in the composition of an entity’s reportable segments.

Constituents’ comments

Five respondents agreed with the proposed amendment. One respondent furthermore made a suggestion to include in paragraph 30 of IFRS 8 a requirement to disclose ‘*in the year in which the change occurs, segment information for the current period on both the old basis and the new basis of segmentation*’ when segment information for previous periods was not restated. In addition, another respondent made a suggestion that restated information for all the interim periods both of the current financial year and

[Proposed] EFRAG final position [EFRAG Secretariat view]

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

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

prior financial years should be provided in relevant situations where the comparative are restated.

One respondent did not oppose the proposed amendment, however, considered that the amendment should be clarified and that it should not require retrospective application. The respondent made the suggestion that it was more appropriate to require that ‘*comparable*’ information is disclosed instead of ‘*restated segment information*’.

Three respondents did not comment on the proposed amendment.

One respondent disagreed with the proposed amendments to IFRS 8 on the basis that it was unlikely that the proposed amendments would resolve the identified issues but would rather create new implementation problems.

Proposed EFRAG’s response to constituents’ comments



Appendix 1: List of respondents

Table 1: List of respondents

Name of constituent¹	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	Preparers Organisation
Organismo Italiano de Contabilita (OIC)	Italy	National Standard Setter
European Securities and Markets Authority (ESMA)	Europe	European Regulator

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

Table 2: Total respondents by country and by type

Respondent by country:		Respondent by type:	
Netherlands	1	National Standard Setters	8
Germany	1	Preparers Organisation	1
Denmark	1	Regulator	1
Portugal	1		
Norway	1		
Poland	1		
France	1		
Italy	1		
Europe	2		
	10		10