



Improvements to IFRS 8 Operating Segments

Accounting Standards Advisory Forum meeting
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ASAF agenda paper 11

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- Post-implementation Review (PIR) of IFRS 8 *Operating Segments* conducted in 2012
- The Exposure Draft *Improvements to IFRS 8 Operating Segments* (Exposure Draft) published in March 2017 in response to PIR
- ASAF discussed the Exposure Draft in July 2017
- The Board discussed feedback summary in November 2017
- Board plans to discuss project approach in January 2017

Objectives of the session

- Provide a high level overview of feedback to the Exposure Draft
- Obtain ASAF members' views on areas we could undertake research, including:
 - help to identify the chief operating decision maker (CODM)
 - criteria for segment aggregation
 - linkage of information in the annual reporting package

Overview of the proposed amendments

Amendments proposed in the Exposure Draft

Clarify role of the CODM:

1. CODM makes operating decisions
2. CODM may be an individual or a group
3. Clarify the role of non-voting members
4. CODM's identity must be disclosed
5. Link IFRS 8 segments with the annual reporting package
6. Clarify criteria for aggregation of segments
7. Clarify that additional segment disclosures can be made
8. Explain reconciling items in sufficient detail
9. Changes in segmentation—provide interim information earlier

Mapping of proposals

Segments/ Line items	Proposals 1-6			Total	Proposal 8	Consolidated financial statements
	Segment 1	Segment 2	Segment 3		Reconciliation	
Revenue	100	450	200	750	100	850
Depreciation	60	55	30	145	133	278
Assets	600	550	300	1,450	-250	1,200

Proposal 7 (circled in blue)

Proposals 1-6 (circled in red)

Proposal 8 (circled in green)

**Proposal 9 – Restated interim financial statements
when there are changes in segmentation**

Identification of CODM

Proposed amendments 1-4

Proposals 1- 4: Identification of CODM

Feedback from the PIR indicated that:

- preparers found it difficult to identify the CODM
- it was not clear if a board of directors that includes non-executive directors could be the CODM
- disclosure of the CODM would provide useful insight into how the entity's activities are managed

Proposals 1- 4: Identification of CODM

The Exposure Draft included the following proposals:

- amendment to emphasise that the CODM makes **operating decisions**
- amendment further explaining the CODM may be either an individual or a group
- an explanation of the role of non-executive directors
- a requirement to disclose the title and description of the CODM

Feedback to the Exposure Draft included:

- a general request for more guidance on the proposals
- a request for guidance on what is an **operating decision** and what is a strategic decision
- a concern that it might be difficult to provide specific guidance on how to identify the CODM as jurisdictions have different management structures
- a concern that the costs associated with implementation of the proposed amendments outweigh the benefits

Proposals 1- 4: Identification of CODM

Ideas we could research to help identify the CODM:

- The lowest level of management which allocates resources and assesses performance for the entity as a whole. This may necessitate consideration of: management structure, reporting packages, compensation and budget process
- The individual or group that makes decisions that directly relate to the ongoing generation of revenue and incurrence of expenses, rather than less frequent decisions such as acquisitions, divestitures and capital expenditures
- State that CODM cannot include a majority of non-executive directors

1. What are your views/suggestions on the ideas that we could research?

Criteria for segment aggregation

Proposed amendment 6

Proposal 6: Criteria for segment aggregation

Current requirements:

- *Qualitative criteria*: two or more operating segments may be aggregated into an single segment if:
 - the aggregation is consistent with the core principle of IFRS 8
 - the segments have **similar economic characteristics**
 - the segments are similar in respect of five criteria
- There is also a *quantitative threshold* of 10 per cent.
- If two or more components of a business meet the qualitative criteria, they may be aggregated notwithstanding that they may individually exceed the quantitative threshold of 10 per cent.

Proposal 6: Criteria for segment aggregation

Feedback from the PIR indicated that:

- Many preparers and auditors have difficulty in practice judging when to aggregate segments and regulators frequently challenge aggregation of segments

The Exposure Draft included the following proposals:

- segments may only be aggregated **if, and only if**, all aggregation criteria met
- additional examples of similar economic characteristics

Proposal 6: criteria for segment aggregation

Feedback to the Exposure Draft included:

- questions if adding further examples of **similar economic characteristics** is the best way to address inappropriate aggregation
- a request for clarification of **similar economic characteristics** and how to assess them

Proposal 6: Criteria for segment aggregation

Areas we could research for aggregation:

- Remove the aggregation criteria but retain the practicable limit guidance (for example, a practical upper limit of 10 reportable segments)
- Retain only quantitative thresholds for determining reportable segments (eg 10% of combined revenues)
- Provide a list of factors to help identify **similar economic characteristics**, for example:
 - nature of business
 - information that investors typically look at

2. Do preparers, auditors and regulators in your jurisdiction have difficulty in practice judging when to aggregate segments?
3. Do you have any comments/suggestions on the areas that we could research?
4. Do you have any alternative suggestions?

Link IFRS 8 segments with the annual reporting package

Proposed amendment 5

Proposal 5: Link IFRS 8 segments with the annual reporting package

Feedback from the PIR indicated that:

- Investors and regulators are concerned that segment information is inconsistent across an entity's communications (annual reporting package*)

The Exposure Draft included the following proposal:

- Disclose an explanation why operating segments in the financial statements differ from segments in other parts of **the annual reporting package**

* See next slide for the definition of 'annual reporting package'.

Proposal 5: Proposed definition of the annual reporting package

An entity's **annual reporting package** is a set of one or more documents that:

- a) is published at approximately the same time as the entity's annual financial statements;
- b) communicates the entity's annual results to users of its financial statements; and
- c) is publicly available, for example, on the entity's website or in its regulatory filings.

In addition to the annual financial statements, **the annual reporting package may include a management commentary, press releases, preliminary announcements, investor presentations and information for regulatory filing purposes.**

Proposal 5: Link IFRS 8 segments with the annual reporting package

Feedback to the Exposure Draft included:

- overall support from investors and regulators whereas other respondents did not support the proposal
- questions on whether the Board has a mandate to introduce such a disclosure requirement
- requests for guidance on the meaning of ‘the annual reporting package’

5. Do you have suggestions for how we might bring consistency between the different parts of the annual report and/or annual reporting package?
6. What are your views on:
 - A. reducing the proposed requirement to the annual report or
 - B. redefining 'the annual reporting package' to include preliminary announcements and interim announcements only?

Appendix: overview of feedback

- Overall investors:
 - appreciate the Board addressing segment disclosures
 - support the proposals in the Exposure Draft, but would like more significant changes
 - some believe a lack of information about an entity's activities is caused by the management approach*

* Source: comment letters from Eumedion, SFAF and EFFAS.

- Regulators support the proposals, but request more guidance on:
 - identifying the CODM (**proposals 1–3**), and the difference between operating and strategic decisions
 - the definition of ‘the annual reporting package’ (**proposal 5**)

Feedback from preparers, NSS, accounting firms and associations

- Support some proposals whilst expressing the following concerns:
 - requests for more clarification or guidance on all of the proposed amendments, especially for guidance on identifying the CODM (**proposals 1-3**)
 - a lack of support for the proposal to link IFRS 8 segments to the annual reporting package (**proposal 5**)

- Mixed reaction on the need to clarify the role of CODM
- Suggested that if the CODM is identified at an appropriate level consistency in segment reporting might improve and there may be less pressure on the aggregation criteria
- Concern that linking IFRS 8 segments with the annual reporting package is beyond the boundaries of financial statements

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