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Mr Jean-Paul GAUZES
Chairman – EFRAG Board
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EFRAG's Draft Comment Letter - Exposure Draft ED/2017/2 - Improvements to IFRS 8 Operating Segments – Proposed amendments to IFRS 8 and IAS 34

Dear Mr Gauzes,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned EFRAG's Draft Comment Letter issued in May 2017 regarding the *Exposure Draft ED/2017/2 Improvements to IFRS 8 Operating Segments – Proposed amendments to IFRS 8 and IAS 34*. This letter sets out the most important comments raised by interested stakeholders involved in ANC's due process. Our Board has reviewed and approved this letter on July 5th 2017. Appendix A fully details ANC's comments on the EFRAG's additional questions set in the draft comment letter as well as on the questions raised by the IASB's ED on IFRS 8.

As general comment, ANC underlines that some of the questions raised within the IFRS 8 ED are part of the Better Communication project. Therefore, ANC believes that the IFRS 8 standard should not be amended before finalising the debates on the Principles of Disclosures DP and Primary Financial Statements discussions.

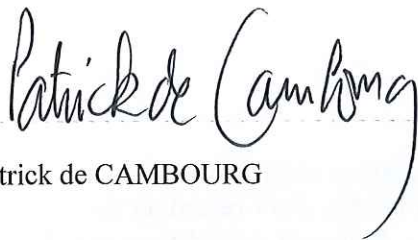
As regards the EFRAG draft comment letter, ANC globally supports it but wishes to highlight some differing key views.

- As first comment, ANC is in favour of an overall consistency between the information provided in and outside the financial statements; meaning that when a difference arises the justification of such a difference has to be disclosed. However, ANC considers that such reconciling information belongs to the financial communication and there is no conceptual basis to disclose it within the financial statements. ANC therefore does not support the proposed amendment as it would lead to reconcile, within the financial statements, IFRS 8 operating segment information to non-IFRS segment information.

- ANC does not support EFRAG's position as regard IASB's proposal to strengthen aggregation criteria as the final operating segments disclosed may differ from the management approach, meaning that the aggregation constraints in IFRS 8 may result in an IFRS compliant level of aggregation that differs from the way management effectively aggregates and monitors its sectors.
- Disclosing non-IFRS 8 information (information that has not been reviewed by the CODM) should be carefully considered in order to avoid an uncontrolled increase of non-GAAP information in the financial statements. ANC considers that if additional financial information is disclosed it should comply with IFRS characteristics in terms of relevance, materiality, consistency over time, faithfulness...
- ANC is not against the proposal to amend the description of the chief operating decision maker, but underlines the fact that no need to perform such a change has been reported by its stakeholders.
- Finally, and as the concept is widely used in the set of IFRS standards, ANC considers that a unique definition of the "*annual reporting package*" should be developed before amending IFRS 8.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,



Patrick de CAMBOURG

Copy sent to IASB

Appendix A – Comments on the IASB’s ED 2017/2 questions and EFRAG’s additional questions to constituents

Highlighting the fact that “*Better communication*” projects are currently on-going and that some of the issues identified in the DP “Principles of disclosures” or planned to be developed in the “*Primary Financial Statements*” project relate to IFRS 8 developments, ANC believes that the IASB should ensure the discussions on the “*Better communication*” project are finalized before amending IFRS 8. ANC also points out that its comments have to be read only in regards to the current IFRS 8 ED and should not prejudge the positions it may have on other future “*Better Communication*” projects.

IASB’s 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?

As prerequisite, we underline the fact that ANC’s stakeholders have not reported difficulties to identify the CODM when applying IFRS 8 and complying with the local enforcers’ recommendations. However, ANC globally supports the EFRAG’s answer supporting the IASB’s proposed changes in the definition of a CODM believing that such amendment should clarify what or who can be identified as playing the CODM’s role.

Nevertheless, ANC raises some limitations to this proposal with the following comments:

- In the IASB approach, the definition of a CODM is supplemented with the reference to the “*function that makes operating decisions...*”. In ANC’s view, this change in the definition will provide a description of the CODM that is too vague and that would increase the risk the CODM becomes the person or body involved in the day to day operating transactions instead of being the one focusing on the strategic decisions taken. Therefore the effects of such a modification would probably be to change, in some instance, the identification of the CODM and correlatively modify the reportable operating segments. In our view, the CODM should be the person/body in charge of taking the strategic decisions, allocating resources ... and should not be the one operating at a lower level.

- In order to avoid disclosures' overload, IFRS8.22 (c) should not be too prescriptive regarding the disclosure requirements for groups of individuals (governance bodies) identified as being the CODM, especially if the CODM is a legal formal body recognized by law (for instance the Board of Directors) and whose description is already disclosed somewhere else in the annual report, notably for instance in the section where the governance system of the entity is described. In addition ANC believes that Financial Statements are not the location where the governance system and the organization of a Group should be disclosed, as it is non-IFRS information.

EFRAG question to constituents - Do you think that the ED provides sufficient guidance to support the application of judgement when identifying the CODM under paragraphs 7, 7A and 7B of the ED? If not please explain why, and provide examples of the cases in which you think the proposed guidance would not be sufficient.

In ANC's view, the proposed amendment provides sufficient guidance.

IASB's 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?

EFRAG question to constituents – 1. The EFRAG Board plans to discuss, at a future meeting, the boundaries of the IASB's mandate and whether the IASB should address matters that go beyond the contents of IFRS financial statements. Do you agree with EFRAG's preliminary reservations over the proposal in paragraph 22(d) of the ED to require an entity to explain in the financial statements how and why the reportable segments identified in the financial statements differ from those identified in other parts of the 'annual reporting package'. If not why? In addition, if you agree with EFRAG's preliminary position, what steps, if any, do you think the IASB could take to address the lack of consistency in identifying operating segments across an entity's communications as to address users' and regulators' concerns?

2. Do you agree with EFRAG's preliminary view that the proposal in paragraph 19B of the ED to define an entity's annual reporting package will raise a number of concerns as described in paragraph 26 above? If not please explain why?

In its draft comment letter, EFRAG raises four points:

1. EFRAG has preliminary reservations over the proposed requirement to explain within the notes to financial statements why segments identified under IFRS 8 are different from the segments reported outside the entity's financial statements.
2. The concept of "entity's annual reporting package" may prove difficult to apply in practice. In addition, EFRAG asks its constituents how the definition of an "annual reporting package" could be better addressed by the IASB.
3. EFRAG agrees with the proposed amendment to emphasize the criteria that has to be satisfied before aggregating segments
4. EFRAG recommends that guidance is provided on whether, and if so how, different functional currencies could affect the aggregation criteria.

1. Requirement to explain why segments are different in IFRS 8 from segments reported outside the entity's financial statements.

ANC disagrees with the IASB's proposal to require an entity to explain within the notes to financial statements why segments identified in the financial statements are different from the segments reported outside the entity's financial statements. ANC underlines the fact that entities may have a different approach between the information disclosed in their financial communication and the information disclosed in their notes to the financial statements as regard segment reporting. Such situation may for instance occur when there is a change in the scope of consolidation, when the entity realize a major transaction, when there is a specific enforcer's request to disclose additional information on unreported and different segment or sub-segments outside the financial statements.

However, ANC understands that in such a situation explanations may be needed, but considers that if differences arise, the reasons for deviating from the IFRS 8 segments in the financial communication should be presented and explained outside the financial statements. The final responsibility does not in our view lie with IFRS standards and shall remain with enforcers who supervise the financial communication. Said differently, ANC believes that it is not the IASB's direct responsibility to enhance the financial communication outside the financial statements and that justifications on existing differences do not have to be presented in the notes to the financial statements. In addition, ANC believes that providing this type of explanations in the notes to the financial statements would weaken the information disclosed in application of IFRS 8, as it would put the emphasis on non-GAAP segments..

2. Concept of "entity's annual reporting package"

ANC agrees with EFRAG's analysis considering the definition of an "entity's annual reporting package" may prove difficult to apply in practice, notably due to the fact that reporting requirements significantly differ amongst jurisdictions (as for instance in Europe where the European Transparency Directive is applied).

ANC underlines the fact that not all jurisdictions apply the IFRS standards to the full annual reporting package, which is notably the case in our jurisdiction. In Europe, complying with the Regulation 1606/2002, IFRS standards are only required for consolidated accounts.

DIRECTIVE 2004/109/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

Of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC

"3. Where the issuer is required to prepare consolidated accounts according to the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts (1), the audited financial statements shall comprise such consolidated accounts drawn up in accordance with Regulation (EC) No 1606/2002 and the annual accounts of the parent company drawn up in accordance with the national law of the Member State in which the parent company is incorporated..."

As mentioned in the "DP Principles of Disclosures" (Section 4.10), the concept of "entity's annual reporting package" is not currently defined in IFRS Standards. The discussion in the last DP is presented below and refers to the definition available in ISA 720. Referring to audit standards is in our view debatable as these standards have different purposes than accounting standards and should be further investigated and discussed in the "Better Communication" project.

DP Principles of Disclosures

“**Annual report**—a single reporting package issued by an entity that includes the financial statements (discussed in paragraph 4.10).”

“4.10 The term ‘annual report’ is not currently defined in IFRS Standards. The Board’s preliminary view is that an entity’s annual report should be described as a single reporting package issued by that entity that includes the financial statements and has boundaries similar to those described in the International Standard on Auditing (ISA) 720 (Revised) *The Auditor’s Responsibilities Relating to Other Information* (described in paragraphs 4.20–4.21). The Board has not discussed interim financial reporting in detail during this project, but it observes that an interim report could also be described as a single reporting package issued by an entity and that the principle in paragraph 4.9 could similarly be applied to an interim report.”

“4.20. As discussed in paragraph 4.10, IFRS Standards refer to, but do not define, an ‘annual report’. The Board discussed the following description of an annual report contained in paragraph 12(a) of ISA 720 (Revised):³³

Annual report—A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor’s report thereon and usually includes information about the entity’s developments, its future outlook and risks and uncertainties, a statement by the entity’s governing body, and reports covering governance matters.³⁴

³³ At the time of the Board discussion, ISA 720 (Revised) *The Auditor’s Responsibilities Relating to Other Information* had not been issued and so the Board discussed an earlier, but almost identical, version of this description.

³⁴ ISA 720 (Revised) deals with the auditor’s responsibilities relating to other information included in an entity’s annual report and describes other information by reference to this definition of an annual report.

In ANC’s view, the concept of “*entity’s annual reporting package*” should be clearly defined before being further used in the standard setting process. Such definition should in our view specify (i) the list of documents constituting the “*entity’s annual reporting package*” (ii) the limits of integrating other types of documents such as financial communication’s documents (iii) the documents used as reference for quarterly or half-year financial information (if the entity publishes such information under IAS 34) .

ANC believes the IASB should also clearly define the scope of the Financial Statements to distinguish them from the documents published for financial communication purpose.

Therefore, ANC believes that the IASB should better address the “*entity annual reporting*” definition. In order to ensure this, the IASB and should first better specify the nature of the information that can be presented and the nature of the information that cannot be disclosed in the financial statements; taking into consideration the *Primary Financial Statement* project and *Principles of Disclosures ED* (where the nature and principles of APM are notably planned to be debated).

3. Segments’ aggregation

ANC does not support the EFRAG position as regards the proposal to have more stringent criteria for segments’ aggregation.

Amended IFRS 8.12 states:

“... Two or more operating segments may be aggregated into a single operating segment if, and only if;

- (a) Aggregation is consistent with the core principle of this IFRS, described in paragraph 1*
- (b) The segments have similar economic characteristics; and*
- (c) The segments are similar in each of the following aspects...”*

ANC understands that the way the proposed amendment is worded implies that segments can only be aggregated if they meet all the criteria mentioned. ANC believes that the IASB should avoid strengthening the aggregation criteria as the final operating segments disclosed may differ from the management approach, meaning that the aggregation constraints in IFRS 8 may result in an IFRS compliant level of aggregation that differs from the way management aggregates and monitors its sectors. Finally, limiting the possibility to aggregate sectors may lead to:

- An increased number of reported sectors;
- A structure that does not reflect the level at which the CODM effectively monitors its business. Therefore having more stringent criteria could increase the risk to have a disconnection between financial information available in the financial communication and the one available in the financial statements under IFRS 8.

One needs to be careful in amending aggregation criteria in IFRS 8 as such potential impact has not been assessed yet.

As side comment on segments' aggregation, ANC considers that the “*return on assets*” measure mentioned in the section 12.A of the proposed amendment can be used as an example but should not become a measure that can be systematically used to demonstrate that two segments' performance characteristics are similar. Actually, the return on assets is highly dependent on the entity's strategy (acquire assets or contract with third parties) even though the underlying business may be identical.

4. Aggregation criteria and guidance on functional currencies

Based on our position on the proposed amendment to change the paragraph referring to the aggregation criteria, ANC considers that no further guidance is needed.

In our view, the functional currency is not a relevant indicator to aggregate operating segments. ANC therefore disagrees with EFRAG's proposal to add functional currencies' criteria.

Question 3

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

ANC is not opposed to adding information that is not reviewed by, or regularly provided to, the chief operating decision maker. However, we remind that the main objective of IFRS 8 standard is to disclose information reflecting the information reviewed by the CODM. Therefore, the IASB needs to be cautious when developing this amendment in order to clearly define what additional information can be added and should do it in the light of “*Better Communication*” projects. The IFRS 8 amendment should mention that:

- Additional information has to be limited to financial information (and shall not include non-financial information)
- Information added has to follow the same requirements as the other information provided (IFRS 8, IAS 1 requirements) in terms of compliance to IFRS standards, relevance, materiality, consistency over time, comparability, faithful representation and reconciliation to the IFRS financial statements...

Question 4

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

ANC agrees with EFRAG position and with the IASB proposed amendment on this question.

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?

ANC considers that this amendment could be clarified and should not require the retrospective application of the amended IFRS 8. We believe that it would be more appropriate to require that “*comparable*” information is disclosed instead of “*restated segment information*”.

Moreover, ANC is concerned by the way IAS 34.BC9(a) is worded as it could be understood as requiring the disclosure of quarterly data. Actually, IAS 34.BC9 states that “*if the composition of the entity's reportable segments was changed on 1 January, its interim financial report for the period ending 31 March would be first to be prepared on the basis of the new composition of reportable segments. That interim report would be required to include restated segment information for each of the four quarters of the prior annual reporting period*”.

In our view, it should be clear in the standard, as well as in the basis for conclusions, that the comparable segment information to disclose has to be restricted to the financial information already disclosed under IAS 34 and that no further information is needed. It means, for instance, that issuers publishing only IAS34 half-year interim financial statements should not be required by the IFRS standards to disclose *“segment information for each of the four quarters of the prior annual reporting period”*.

However an issuer may publish for instance quarterly information on its turnover in its financial communication dedicated to users. If so, it may be a financial communication best practice to retrospectively take into account the effects of a change in IFRS 8, nevertheless such principle shall not be added to IFRS disclosures requirements. We recommend explicating BC9 in order to specify that comparative information if and only if IAS 34 has been applied for the corresponding period.

