BUSINESSEUROPE

International Accounting Standards
Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

25 July 2017

Dear Board Member,

Re: Exposure Draft ED/2017/2 Improvements to IFRS 8 Operating Segments (the ED)

BUSINESSEUROPE is pleased to provide its comments on the tentative improvements to IFRS 8 proposed in the ED.

We do not think that the Board should proceed with the proposals in the ED.

We are particularly concerned by the proposal of paragraph 22(d) which we think may have the detrimental effect of undermining the authority of IFRS by calling attention to non-IFRS compliant presentations of segments and thus validating these, and represents an incursion into the realm of the regulator. Furthermore, this and the proposal of paragraph 22(c) are disclosures to which a materiality judgement cannot easily be applied and thus will result in an addition to the problem of disclosure overload.

We think that the bulk of the remainder of the proposals is intended to deal with perceived problems that our members do not recognise as presenting real difficulties and these are thus unnecessary.

Please see the Appendix for more detailed discussion of these matters.

If you require any further information on our comments, please do not hesitate to contact us.

Yours sincerely,

p.p.

Jérôme P. Chauvin
Deputy Director General

APPENDIX

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?

We do not think that the identification of the CODM as a function rather than as a person presents any difficulty under the current IFRS 8. However, we do not object to the amendments proposed to paragraphs 7 to 7B, on the understanding that these are clarifications which do not change the existing requirements.

In contrast, we do not agree with the proposal in paragraph 22(c) to provide in the notes a description of how the entity is managed and the level at which the relevant major decisions are taken. The fact that the entity has identified the CODM by applying the criteria of paragraph 7 should be sufficient.

The information required by the proposed paragraph 22(c) is typically provided in the governance section of corporate reports and, even if it is not required elsewhere, is not information appropriate to the notes to the general purpose financial statements, as it does not provide further details or explanation about the figures presented.

We think that this is an example of the disclosure overload that the Board and constituents are currently struggling against.

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?

2(a) We disagree with the proposed requirements of paragraph 22(d). We think that such a statement will result in confusion about the identification of the reportable segments in compliance with IFRS 8. The information proposed will effectively bring non-IFRS GAAP into the notes to the IFRS financial statements by reference and will blur the boundaries of the audited annual financial statements.

It will be very difficult to define adequately the "annual reporting package" since there is already a plethora of reports that are required by legislation on an annual basis, and this will thus create many opportunities for disagreement and, potentially, litigation. This proposal will, we think, be detrimental to the credibility of IFRS.

In our view, any requirements for information about non-IFRS-compliant financial or similar reports fall into the domain of the regulator in the relevant jurisdiction and the IASB should not encroach upon this.

Finally, the Discussion Paper on the Disclosure Initiative also deals with "the annual report" and the topic of inclusion by cross-reference. We urge the Board to ensure that the notions of annual reporting package and annual report are dealt with in parallel to ensure that any requirements the Board may decide to put in place in these two projects are fully consistent.

2 (b) Whilst we agree with the striking-through of the first two sentences of paragraph 12, since they fog the issue at present, we disagree with the proposal to insert new paragraph 12A in the Aggregation Criteria section. We think that the re-drafted statement made about similar economic characteristics is too simplistic and, given its position in the text, may come to be regarded as quasi-criteria in due course. In our view, 12A should be removed.

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?

We think that the ability to provide relevant and useful information, even if not specifically required by the relevant standard, is implicitly permitted under IFRS and that this should be a fundamental core principal of a future approach to disclosure. We therefore do not think that this proposal is necessary but we do not object to it.

We do, however, wonder whether such a clarifying statement might result in the counter-productive interpretation that information cannot be provided on a "voluntary" basis if it is not specifically permitted in the body of IFRS.

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?

We think that the requirement to provide clearly described information in sufficient detail for users to understand an item is an implicit requirement of IFRS and there is no reason for this to be stated specifically in this case. This could be an example of the type of requirement that should be contained in a generic standard on disclosure requirements and the objective of disclosures. Having said that, we do not object to this amendment.

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?

We think that this threshold is appropriate and could be put into operation without difficulty by use of management judgement.

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