

EXPOSURE DRAFT 2017/2

IMPROVEMENTS TO IFRS 8 OPERATING SEGMENTS

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Summary

On 29 March 2017, the International Accounting and Standards Board (IASB) published Exposure Draft 2017/2 *Improvements to IFRS 8 Operating Segments* (the ED), which follows from a post-implementation review of that standard. The IASB proposes amending IFRS 8 to:

- Emphasise that the chief operating decision maker (CODM) is a function that makes operating decisions about allocating resources to, and assessing the performance of, the operating segments of an entity.
- Add to the existing requirements an explanation that the CODM may be either an individual or a group.
- Explain the role of non-executive members when identifying an entity's CODM.
- Require the disclosure of the title, and description of the role, of the individual or group that is identified as the CODM.
- Require an explanation in the notes to the financial statements when segments identified in the financial statements differ from those in other parts of its annual reporting package.
- Add further examples of similar economic characteristics to the aggregation criteria.
- Clarify that an entity may disclose segment information in addition to that reviewed by, or regularly provided to, the CODM if that helps the entity meet the core principle in IFRS 8.
- Clarify that the explanations of reconciling items should be given with sufficient detail to enable users of financial statements to understand the nature of those items.

The IASB also proposes amending IAS 34 *Interim Financial Reporting* to require that in the first interim report after a change in the composition of its reportable segments, an entity should present restated segment information for all interim periods of both current and prior financial years, unless the information is not available and the cost to develop it would be excessive

Comments on the Exposure Draft are requested by 31 July 2017.

STATUS

Exposure Draft

EFFECTIVE DATE

To be confirmed

ACCOUNTING IMPACT

Disclosure only

Chief Operating Decision Maker

Paragraph 7 of IFRS 8 states that the term 'chief operating decision maker' (CODM) identifies a function, not necessarily a manager with a specific title. The ED makes the following clarifications to assist in identifying which person (or group of people) is the CODM:

- It identifies that the 'function' referred to includes the making of operating decisions
- In addition to noting that the CODM will often be the chief executive or chief operating officer, the ED emphasises that it could be a group of executive directors or others. Whether it is a single person or a group of people (such as a board of directors or a management committee) will depend on how the entity is managed and may be influenced by corporate governance requirements
- It acknowledges that a group, such as a board of directors, may include individuals referred to as non-executive members, and that such a group could be the CODM if operating decisions and decisions about allocating resources to, and assessing the performance of, the operating segments of an entity are made by that group, even if those non-executive members do not participate in such decisions.

Aggregation Criteria

Paragraph 12 of IFRS 8 permits operating segments reported internally to be aggregated for the purposes of making segment disclosures in financial statements if several criteria are met. One of the criteria to be met is that the operating segments have similar economic characteristics. It also notes that operating segments that have similar characteristics often exhibit similar long-term financial performance such as similar long-term average gross margin.

The ED expands the examples of metrics that may mean two segments exhibit similar long-term financial performance to include:

- Similar long-term revenue growth; and
- Similar long-term return on assets.

Disclosure

The ED proposes several additional disclosures to the current requirements in IFRS 8. Specifically it proposes requiring an entity to:

- Disclose the title and description of the role of the individual or the group which is identified as the CODM;
- Disclose an explanation of, and the reasons for, any differences in reportable segments identified in the financial statements compared with the segments identified in other parts of the entity's annual reporting package. The ED also identifies that an annual reporting package is a set of one or more documents that:
 - is published at approximately the same time as the entity's annual financial statements;
 - communicates the entity's annual results to users of its financial statements;
 - is publicly available, for example on the entity's website or in its regulatory filings; and
 - may include management commentaries, press releases, preliminary announcements, investor presentations and information for regulatory filing purposes.
- Separately identify and describe all material items reconciling the total reportable segment amounts to amounts in the entity's primary financial statements, giving as examples:
 - adjustments for different accounting policies;

- Elimination of intersegment amounts; and
- Amounts not allocated to the reportable segments.

The ED also proposes that an entity should be permitted to disclose additional information about its reportable segments, whether or not that information is regularly reviewed by the CODM, if such disclosure would enable users of financial statements to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environments in which it operates.

Amendment to IAS 34

The IASB is proposing to amend IAS 34 *Interim Financial Reporting* at the same time as it amends IFRS 8. Specifically the proposed amendment to IAS 34 requires that when an entity changes the composition of its reportable segments, in the first interim financial report after that change it should restate and disclose segment information for each previously reported interim period of both the current and prior financial periods. An exemption from providing this information is available if the information is not available and an entity judges that the cost to obtain it would be excessive. This determination would have to be made for each individual item of segment disclosure required by IAS 34.

Effective date and transitional provisions

The ED does not propose an effective date for the proposed amendments to IFRS 8 or IAS 34, although it does propose an entity should be permitted to adopt the amendments to both standards early.

There are no transitional provisions and, therefore, an entity would be required to provide the proposed amendments retrospectively.



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