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International Organization of Securities Commissions
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24 July 2017

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

RE: IASB Exposure Draft – Improvements to IFRS 8 Operating Segments

Our Ref: 2017/PK/C1/IASB/48

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or C1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft: *Improvements to IFRS 8 Operating Segments* (the Exposure Draft of ED).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Overall Comments:

We welcome the IASB's efforts to make improvements to IFRS 8 in response to the findings of the Board's 2013 Report and Feedback Statement *Post-implementation Review: IFRS 8 Operating Segments*. Additionally, we are in agreement with the Board's stated aim, as stated in paragraph BC3, to "maintain the level of convergence [with US GAAP] achieved in 2006 when IFRS 8 was issued."

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?

Response 1:

Regarding the definition of the CODM, we believe that further clarification and/or implementation guidance, as it relates to the meaning of "operating decisions" is needed.

Resource Allocation

As currently worded, it is unclear if resource allocation is viewed to be an operating decision or not. As stated in BC6, and as we understand in practice, some view resource allocation decisions to be more strategic in nature. However, as stated in the last sentence in BC6, ultimately the "title of the chief operating decision maker refers… to operating decisions." Additionally, paragraph 5(b) of IFRS 8 states that one criterion of an operating segment is that its "operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance." Therefore, one could presume that "operating decisions" must include decisions regarding resource allocation and assessment of performance. Some members would recommend that the IASB add explicit clarification in BC6 to state that resource allocation and performance assessment are viewed to be operating decisions (if this is the IASB's view for purposes of applying the guidance in IFRS 8). Additionally, these members believe that additional guidance regarding what types of resource allocation decisions are intended to be part of the assessment (if the IASB believes that there is a distinction between different types of resource allocation decisions) would be helpful to financial statement preparers and users. Additionally, these members recommend that paragraph 7 be amended to state:

> The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is the one that makes operating decisions ~~and~~, which include decisions about allocating resources to, and assessing the performance of, the operating segments of an entity.

If the IASB intends to create a three-pronged requirement (the CODM makes operating decisions, and decisions about allocating resources to, and assessing the performance of the operating segments of an entity) to be met to identify the CODM, we recommend that the IASB should provide further clarification and implementation guidance regarding the meaning of "operating decisions."

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Board of Directors as CODM

Additionally, the proposed amendments in paragraph 7B use as an example the Board of directors as a group that could be identified as the CODM (if the function of the CODM is performed by the group). Some members think it would be useful for the Board to clarify or provide an example of when it may be appropriate for the Board of Directors to be identified as the CODM (or when it may not be appropriate to identify the entire Board as the CODM). We are concerned that identification of the CODM at the Board level might be too high within certain types of organizations, and could result in too few segments being identified, or the level of information per the individual segment would not be as detailed to support the objective of the standard.

Paragraph 22(c)

We support the proposal 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, as such a disclosure would make the entity's decision-making process more transparent.

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?

Response to Question 2(a):

We believe that the correct identification of an entity's reportable segments under IFRS 8 should result in consistent discussion by management of the entity's operations both within and outside of the financial statements.

Paragraph 22(d)

A majority of members believe that the Board's proposal in paragraph 22(d) to require disclosure of an explanation of why reportable segments identified in the financial statements differ from segments

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identified in other parts of the entity's annual reporting package will help reduce instances where information provided outside of the financial statements indicates that reportable segments have not been appropriately identified. These members believe that having an entity explain the reason will be a strong incentive for consistency, whereas remaining silent would not reduce the current level of inconsistency present in practice. Implementation guidance could explain that the intent of the disclosure is to discourage inconsistent reporting of segment information within the financial statements and outside of the financial statements. Accordingly, these members are in favor of the Board's proposal. However, these members agree that further implementation guidance, as noted below, would be helpful to financial statement preparers and users, provided that implementation guidance is not overly detailed and is consistent with a principles-based framework.

A minority of members do not support the IASB's proposal in paragraph 22(d) to add a requirement to disclose in the financial statements an explanation of and the reasons why segments in the financial statements differ from segments identified in other parts of the entity's annual reporting package (if a difference is present). These members do not believe that the Board's proposal will achieve the intended result (i.e., identification of the same reportable segments in the financial statements as in other parts of the annual reporting package) as the disclosure could in fact be viewed as explicit permission to allow a difference between segments identified in the financial statements and segments identified in other parts of the entity's annual reporting package. Furthermore, in these members' view, in practice, it may not necessarily be that different segments are *explicitly* identified in information outside of the financial statements, but rather *information* that is disclosed in documents outside of the financial statements is not consistent with the identified reportable segments in the financial statements. The proposed disclosure requirement in paragraph 22(d) would not address this concern. In these members' view, an alternative could be to clarify that the disclosure required by paragraph 22(a) and 22(aa) about the factors used to identify the entity's reportable segments and judgements made in applying the aggregation criteria must be sufficiently detailed. If there are differences in information / segments reported outside the financial statements compared to reportable segments within the financial statements, an entity should disclose how the factors used to identify and aggregate operating segments differed between the two sets of information / segments.

One member believes that there should not be more than one set of segment information (within the financial statements and outside of the financial statements) since it is driven by the information provided to and reviewed by the CODM.

Implementation Guidance

We believe that there would be operational challenges in applying the proposed disclosure requirement in the ED. In particular, we believe that further implementation guidance is needed regarding the intended

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application of paragraph 19B(a)[1], what constitutes the annual reporting package, what constitutes a segment in the annual reporting package, and what types of differences would require disclosure pursuant to paragraph 22(d):

- Paragraph 19B(a): We believe that clarification of the meaning of "approximately the same time" would lead to more consistent application of this disclosure requirement. Some members recommend that the IASB clarify that the comparison should be performed relative to the documents that are available before or at the same time as the entity's financial statements are published. This would allow the independent external auditor the ability to audit the disclosure in the financial statements prior to the issuance of the financial statements given that the comparison point is relative to the annual reporting package that has been published prior to or as of the financial statements. Additionally, some members would ask the IASB to consider whether this disclosure requirement should be required on an interim basis as well, in which case, an amendment to IAS 34 *Interim Financial Reporting* (IAS 34) would be recommended.

- Paragraph 19B: While this paragraph provides a description of what is the "annual reporting package" we believe that additional implementation guidance is needed to ensure consistent application of the analysis given that entities in different jurisdictions utilized a variety of forms and mechanisms to provide "annual reporting package" information to investors. Additionally, we would recommend including a reference to "analyst presentations"

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

- Segments identified in the annual reporting package: As noted above, it may not necessarily be that different segments are *explicitly* identified in information outside of the financial statements, but rather *information* that is disclosed in documents outside of the financial statements is not consistent with the identified reportable segments in the financial statements. If the Board proceeds with this requirement, it would be helpful if the Boards provided additional definitional guidance and/or implementation guidance regarding the identification of a "segment" in the "annual reporting package" to ensure consistent application of the Board's intent of what constitutes a "segment" outside of the financial statements.

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[1] Paragraph 19B(a) states that an entity's 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."

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- Types of differences that would require disclosure pursuant to paragraph 22(d): We believe that further clarification should be provided to clarify the types of differences that would trigger disclosure pursuant to paragraph 22(d). For example, assume an entity identifies three segments in its financial statements (based on geographical region) in accordance with the principles and requirements of IFRS 8. Within the "annual reporting package," the entity discusses its operations based on the three geographical regions utilized in the financial statements. However, the entity discusses further disaggregated information (e.g., country level information of each geographic region) in its "annual reporting package." (Assume that country level information is not provided to, and is not reviewed by, the CODM.) Does the Board intend a requirement for a disclosure in the financial statements in accordance with paragraph 22(d) in such an instance? There are many other permutations of "differences" so further clarity regarding type and nature of difference requiring disclosure would better operationalize the disclosure requirement.

Audit Consideration

Additionally, we would also recommend that the Board consider consulting with the International Auditing and Assurance Standards Board (IAASB) and other auditing regulators to consider potential challenges with how this disclosure requirement would be subject to audit procedures by independent external auditors, particularly in auditing the completeness of the disclosure.

Other

In closing and consistent with our view in the first sentence in our response to Question 2(a), we recommend a revision to paragraph 19A to remove the first sentence in that paragraph and start the paragraph with the IASB's general expectation of consistency in segments identified in the financial statements as in other parts of its annual reporting package. We believe that prioritizing this general expectation is important to allow a reader to understand that the proposed disclosure requirement in paragraph 22(d) is not intended to be the norm, but rather the exception. As amended, the paragraph would state:

> An entity is expected to identify the same reportable segments in its financial statements as in other parts of its annual reporting package. Paragraph 22(d) requires disclosure when the reportable segments identified in the financial statements differ from the segments identified in other parts of the annual reporting package.

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Response to Question 2(b):

We observe an inconsistency between the use of the words "if, and only if" in the first sentence of paragraph 12, the Board's stated intent in BC23[2], and the use of the word "often" in the first sentence of paragraph 12A. We are supportive of the Board's intent as described in BC23 and the use of the words "if, and only if" in paragraph 12A, and recommend removal of the word "often" from the first sentence in paragraph 12A such that the sentence would read:

> Operating segments that have similar economic characteristics ~~often~~ exhibit similar long-term financial performance across a range of measures.

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?

Response 3:

We acknowledge that IFRS 8 requires an entity to disclose information if such disclosure is necessary to enable the entity to meet the core principle in paragraphs 1 and 20 of IFRS 8. We understand that paragraph 20A is being proposed as a clarifying amendment.

The proposed clarifying amendment as currently framed states that an entity *may* disclose additional information about its reportable segments if that *helps* to meet the core principle of the standard. Based on the wording in proposed paragraph 20A, we are unclear how an entity should determine when or what additional information should be disclosed. Specifically, we are concerned that the proposed requirement broadens the scope of permissible information and may create enforceability challenges in practice. We are also concerned that it increases the likelihood of the inappropriate inclusion of information, such as non-GAAP information (e.g., adjusted revenue, adjusted cost of sales, adjusted earnings per share, etc.) that does not meet the core principle of IFRS 8. Accordingly, some members recommend the inclusion of an explicit prohibition against the disclosure of non-GAAP information that is inconsistent with IFRS in the segment footnote.

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[2] BC23 states, in part (emphasis added): "The Board also proposes to clarify that operating segments may be viewed as having similar economic characteristics **only** if they are similar across a range of measures of long-term financial performance."

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Some members believe that paragraph 20A should be retained and this disclosure requirement should not be a "may" requirement but rather should be a "must" requirement. These members believe that disclosures that meet the core principle in paragraphs 1 and 20 of IFRS 8 should be a required disclosure. These members also shared the concerns about the inclusion of non-GAAP information but felt that the core principle should be applied to address situations where using the detailed provisions of the standard resulted in disclosing too few segments to meet user needs. Accordingly, these members recommend that the first sentence to paragraph 20A should read as follows to bring further prominence to the core principles of IFRS 8:

> In addition to the disclosures required by paragraphs 21-27, an entity must disclose additional information about its reportable segments if it is necessary to meet the core principle in paragraphs 1 and 20.

Additionally, some members believe that the Board should provide additional context, perhaps through an example, of additional information about a reportable segment that is necessary to meet the core principle, and that is not reviewed by, or regularly provided to the CODM. Also, some members recommend that an entity be required to separately label such information as information not regularly reviewed by, or regularly provided to, the CODM. Lastly, some members question if the IASB should consider constituent feedback from the Discussion Paper for the *Disclosure Initiative – Principles of Disclosure* project (the "Disclosure Initiative Project"), given that the IASB's views on the Disclosure Initiative Project may impact how the IASB deliberates amendments to IFRS 8.

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?

Response 4:

We are supportive of the IASB's proposed 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).

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

Response 5:

We are supportive of the IASB's proposed amendment.

Some members would recommend that the IASB consider making an amendment to IAS 34 to require disclosure of similar information on an interim basis, as currently required under paragraph 30[3] of IFRS 8. Additionally, some members would recommend that the requirement to disclose whether an entity has restated the segment information for earlier periods also be accompanied by a disclosure explaining why the entity did not restate segment information for earlier periods (i.e., information is not available and the cost to develop it would be excessive).

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact Jenifer Minke-Girard, Vice Chair of Committee 1 at +1 202-551-5300. In case of any written communication, please mark a copy to me.

* * * *

Sincerely,

Parmod Kumar Nagpal
Chair
Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions

[3] Paragraph 30 of IFRS 8 states: "If an entity has changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change, the entity shall disclose in the year in which the change occurs segment information for the current period on both the old and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive."

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