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Exposure Draft ED/2017/2

Improvements to IFRS 8 Operating Segments

Proposed amendments to IFRS 8 and IAS 34

Comments to be received by 31 July 2017

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**Improvements to
IFRS 8 *Operating Segments***

(Proposed amendments to IFRS 8 and
IAS 34)

Comments to be received by 31 July 2017

Exposure Draft ED/2017/2 *Improvements to IFRS 8 Operating Segments* (Proposed amendments to IFRS 8 and IAS 34) is published by the International Accounting Standards Board (the Board) for comment only. The proposals may be modified in the light of any comments received before being issued in final form. Comments need to be received by 31 July 2017 and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Comment on a proposal' page at: <http://www.ifrs.org/open-to-comment/Pages/International-Accounting-Standards-Board-Open-to-Comment.aspx>.

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Introduction

In July 2013, the International Accounting Standards Board (the Board) published its Report and Feedback Statement *Post-implementation Review: IFRS 8 Operating Segments*. In that document, the Board concluded that IFRS 8 was functioning as expected. Nevertheless, the Board identified some areas that warranted further investigation. Because of those further investigations, the Board now proposes amending IFRS 8 to:

- (a) emphasise that the chief operating decision maker is a function that makes operating decisions and decisions about allocating resources to, and assessing the performance of, the operating segments of an entity;
- (b) add to the existing requirements an explanation that the chief operating decision maker may be either an individual or a group;
- (c) explain the role of non-executive members when identifying an entity's chief operating decision maker;
- (d) require the disclosure of the title and description of the role of the individual or the group that is identified as the chief operating decision maker;
- (e) require an explanation in the notes to the financial statements when segments identified by an entity differ between the financial statements and other parts of its annual reporting package;
- (f) add further examples of similar economic characteristics to the aggregation criteria in paragraph 12A of IFRS 8;
- (g) clarify 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 the Standard; and
- (h) clarify that the explanations of reconciling items shall be given with sufficient detail to enable users of financial statements to understand the nature of the reconciling items.

The Board also proposes amending IAS 34 *Interim Financial Reporting*. The Board proposes that, in the first interim report after a change in the composition of an entity's reportable segments, 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.

Next steps

The Board will consider comments on the proposals and decide whether to proceed with the amendments to IFRS 8 and IAS 34.

Invitation to comment

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) comment on the questions as stated;
- (b) indicate the specific paragraph or group of paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternative the Board should consider.

The Board is not requesting comments on matters that are not addressed in this Exposure Draft.

Comments should be submitted in writing so as to be received no later than **31 July 2017**.

Questions for respondents

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?

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?

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?

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?

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?

[Draft] Amendments to IFRS 8 *Operating Segments*

Paragraphs 7, 12, 22 and 28 are amended and paragraphs 7A, 7B, 12A, 19A, 19B, 20A, 28A and 36D are added. Deleted text is struck through and new text is underlined. Paragraphs 20, 21, 23, 24, 29 and 30 have been included for ease of reference but are not proposed for amendment.

Operating segments

...

7 The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is ~~to the one that makes operating decisions and decisions about allocating resources to, and assessing the performance of, the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others.~~

7A Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others. Whether the chief operating decision maker is an individual or a group will depend on how the entity is managed. Corporate governance requirements may influence whether an entity's chief operating decision maker is an individual or a group, such as a board of directors or a management committee.

7B A group, such as a board of directors, may include some members whose primary responsibility is governance and who consequently do not participate in all decision making. Such members are sometimes referred to as non-executive members. Such a group would be the chief operating decision maker 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.

...

Reportable segments

...

Aggregation criteria

12 ~~Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. 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 respects:
 - (ai) the nature of the products and services;
 - (bij) the nature of the production processes;
 - (eiii) the type or class of customer for their products and services;
 - (diiv) the methods used to distribute their products or provide their services; and
 - (ev) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

12A Operating segments that have similar economic characteristics often exhibit similar long-term financial performance across a range of measures. Examples of such measures include similar long-term revenue growth, similar long-term return on assets or similar long-term average gross margins.

...

Identification of the reportable segments of the entity

19A Identification of segments is based on how an entity's operations are reported to the chief operating decision maker. Consequently, 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.

19B 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.

Disclosure

20 **An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.**

20A In addition to the disclosures required by paragraphs 21–27, an entity may disclose additional information about its reportable segments if that helps it to meet the core principle in paragraphs 1 and 20. This additional information may include information not reviewed by, or regularly provided to, the chief operating decision maker.

21 To give effect to the principle in paragraph 20, an entity shall disclose the following for each period for which a statement of comprehensive income is presented:

- (a) general information as described in paragraph 22;
- (b) information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement, as described in paragraphs 23–27; and
- (c) reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts, as described in paragraph 28.

Reconciliations of the amounts in the statement of financial position for reportable segments to the amounts in the entity's statement of financial position are required for each date at which a statement of financial position is presented. Information for prior periods shall be restated as described in paragraphs 29 and 30.

General information

22 An entity shall disclose the following general information:

- (a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated);
- (aa) the judgements made by management in applying the aggregation criteria in paragraphs 12 and 12A. This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics; ~~and~~
- (b) types of products and services from which each reportable segment derives its revenues;
- (c) the title and description of the role of the individual or the group which is identified as the chief operating decision maker; and
- (d) an explanation of, and the reasons for, the difference in reportable segments identified in the financial statements compared with the segments identified in other parts of the entity's annual reporting package, if there is such a difference.

Information about profit or loss, assets and liabilities

23 An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

- (a) revenues from external customers;
- (b) revenues from transactions with other operating segments of the same entity;
- (c) interest revenue;
- (d) interest expense;
- (e) depreciation and amortisation;
- (f) material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 *Presentation of Financial Statements* (as revised in 2007);
- (g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
- (h) income tax expense or income; and
- (i) material non-cash items other than depreciation and amortisation.

An entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.

24 An entity shall disclose the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment assets:

- (a) the amount of investment in associates and joint ventures accounted for by the equity method, and
- (b) the amounts of additions to non-current assets¹ other than financial instruments, deferred tax assets, net defined benefit assets (see IAS 19 *Employee Benefits*) and rights arising under insurance contracts.

...

¹ For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period.

Measurement

...

Reconciliations

28 An entity shall provide reconciliations of all of the following:

- (a) the total of the reportable segments' revenues to the entity's revenue.
- (b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.
- (c) the total of the reportable segments' assets to the entity's assets if the segment assets are reported in accordance with paragraph 23.
- (d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.
- (e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

~~All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described.~~

28A All material reconciling items shall be separately identified and described in sufficient detail to enable users of the financial statements to understand their nature. Examples of reconciling items include:

- (a) adjustments for different accounting policies, such as when an item or type of transaction is measured on a different basis in the segment information than used elsewhere in the financial statements. For example, this might be the case if an entity reports some or all segment information at a standard exchange rate that differs from the rates required by IAS 21 *The Effects of Changes in Foreign Exchange Rates*.
- (b) elimination of intersegment amounts, such as revenue and intersegment receivables.
- (c) amounts not allocated to the reportable segments. For example, some corporate expenses, pension costs or exchange differences might not be allocated to reportable segments.

Restatement of previously reported information

29 If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be restated unless the information is not available and the cost to develop it would be

excessive. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods.

- 30 If an entity has changed the structure of its internal organisation 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 basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive.

...

Transition and effective date

...

- 36D [Draft] *Improvements to IFRS 8 (Amendments to IFRS 8 and IAS 34)*, issued in [date to be decided after exposure], amended paragraphs 7, 12, 22 and 28 and added paragraphs 7A, 7B, 12A, 19A, 19B, 20A and 28A. An entity shall apply those amendments retrospectively in accordance with IAS 8 for annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact and apply the amendment to IAS 34 *Interim Financial Reporting* at the same time.

**[Draft] Amendment to
IAS 34 *Interim Financial Reporting***

Paragraphs 45A and 58 are added. New text is underlined. Paragraphs 16A(g) and 43–45 have been included for ease of reference but are not proposed for amendment.

Other disclosures

16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. ... The information shall normally be reported on a financial year-to-date basis.

(a)–(f) ...

(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements):

(i) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.

(ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.

(iii) a measure of segment profit or loss.

(iv) a measure of total assets and liabilities for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

(v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

(vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. ...

(h)–(l) ...

Restatement of previously reported interim periods

- 43 **A change in accounting policy, other than one for which the transition is specified by a new IFRS, shall be reflected by:**
- (a) **restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with IAS 8; or**
 - (b) **when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years to apply the new accounting policy prospectively from the earliest date practicable.**
- 44 One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. Under IAS 8, a change in accounting policy is reflected by retrospective application, with restatement of prior period financial data as far back as is practicable. However, if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then under IAS 8 the new policy is applied prospectively from the earliest date practicable. The effect of the principle in paragraph 43 is to require that within the current financial year any change in accounting policy is applied either retrospectively or, if that is not practicable, prospectively, from no later than the beginning of the financial year.
- 45 To allow accounting changes to be reflected as of an interim date within the financial year would allow two differing accounting policies to be applied to a particular class of transactions within a single financial year. The result would be interim allocation difficulties, obscured operating results, and complicated analysis and understandability of interim period information.
- 45A When an entity changes the composition of its reportable segments in accordance with IFRS 8, the entity shall, in the first interim financial report after that change, restate and disclose the segment information required by paragraph 16A(g) for each previously reported interim period 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. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. The entity shall disclose whether it has restated the segment information for earlier periods.**

Effective date

...

58 [Draft] *Improvements to IFRS 8 (Amendments to IFRS 8 and IAS 34)*, issued in [date to be decided after exposure], added paragraph 45A. An entity shall apply that amendment for annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies that amendment for an earlier period, it shall disclose that fact and apply the amendments to *IFRS 8 Operating Segments* at the same time.

Approval by the Board of Exposure Draft *Improvements to IFRS 8* (Proposed amendments to IFRS 8 and IAS 34) published in March 2017

The Exposure Draft *Improvements to IFRS 8* was approved for publication by the 12 members of the International Accounting Standards Board.

Hans Hoogervorst Chairman

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Basis for Conclusions on the proposed amendments to IFRS 8 *Operating Segments*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments. It summarises the considerations of the International Accounting Standards Board (the Board) when developing the proposed amendments. Individual Board members gave greater weight to some factors than to others.

Introduction

BC1 IFRS 8 was the first Standard to be subject to a Post-implementation Review (PIR) by the Board. The Report and Feedback Statement *Post-implementation Review: IFRS 8 Operating Segments*, published in 2013, states the Board's conclusion that the Standard was functioning as expected, but that some areas of IFRS 8 should be investigated for potential improvement and amendment. In developing the Exposure Draft, the Board has considered only those areas.

Proposed amendments to a converged Standard

BC2 IFRS 8 is a Standard substantially converged with US Generally Accepted Accounting Principles (US GAAP). The US Financial Accounting Foundation (FAF) also carried out a PIR of the equivalent requirements in US GAAP and published a Post-Implementation Review Report on Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information*, codified as Topic 280 (the FAF Report). The FAF is the trustee body of the US national standard-setter, the Financial Accounting Standards Board (FASB). In January 2014 the FASB decided not to add to its agenda a project to amend the Statement of Financial Accounting Standards 131 because of the FAF's PIR. In August 2016, the FASB published as part of an agenda consultation an Invitation to Comment in which it asked for views about adding a project to its agenda that could reconsider various aspects of segment reporting. At the time of this Exposure Draft's publication, the FASB had not concluded its agenda consultation.

BC3 When considering whether and how to amend IFRS 8, the Board aims to maintain the level of convergence achieved in 2006 when IFRS 8 was issued. At the same time, the Board aims to improve IFRS 8 while ensuring that the benefits of the amendments exceed the costs they create. To achieve those aims the Board:

- (a) seeks to adhere to the underlying principle that is common to both IFRS 8 and US GAAP, ie the management approach; and
- (b) considers costs and benefits in developing additional disclosure requirements.

Proposed amendments to IFRS 8

Identification of the chief operating decision maker (paragraphs 7–7B and 22(c))

- BC4 One criterion for an operating segment, as set out in paragraph 5 of IFRS 8, is that the segment’s results are regularly reviewed by the entity’s chief operating decision maker. Consequently, the identification of the chief operating decision maker plays an important role in identifying operating segments.
- BC5 At the time of the PIR many preparers reported that they found it difficult to identify the chief operating decision maker. Because of that feedback, the Board proposes amending IFRS 8 to:
- (a) emphasise that the chief operating decision maker is a function that makes the operating decisions and decisions about allocating resources to, and assessing the performance of, the operating segments of an entity—paragraphs BC6–BC7;
 - (b) clarify that the function of the chief operating decision maker may be carried out by an individual or a group and that this will depend on how the entity is managed—paragraphs BC8–BC9;
 - (c) explain the role of non-executive members when identifying an entity’s chief operating decision maker—paragraphs BC10–BC11; and
 - (d) require disclosing the title and description of the role of the individual or the group that is identified as the chief operating decision maker—paragraphs BC25–BC26.
- BC6 In respect of decisions made by the chief operating decision maker, because paragraph 7 of IFRS 8 refers to the allocation of resources, respondents to the PIR questioned whether the role of the chief operating decision maker is principally strategic or principally operational. Many respondents considered decisions about allocation of resources to be strategic. The title of the chief operating decision maker refers, however, to operating decisions.
- BC7 In response to this feedback, the Board proposes amending paragraph 7 of IFRS 8 to emphasise that the chief operating decision maker makes operating decisions and decisions about allocating resources to, and assessing the performance of, the entity’s operating segments.
- BC8 Paragraph 7 of IFRS 8 states that often an entity’s chief operating decision maker is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others. Some respondents to the PIR questioned the role of local requirements for corporate governance in identifying the chief operating decision maker.
- BC9 In response to this feedback, the Board proposes to add paragraph 7A of IFRS 8 to explain that the nature of the chief operating decision maker will depend on the entity’s management structure. The Board also proposes to explain in paragraph 7A that corporate governance requirements may influence whether the entity’s chief operating decision maker is an individual or a group.

- BC10 An entity might identify the board of directors as the chief operating decision maker in a particular circumstance. However, that board of directors might also include directors who are not directly involved in the process of making decisions that the chief operating decision maker is authorised to make. Such members are sometimes referred to as non-executive members. Some respondents questioned whether a group identified as the chief operating decision maker may include non-executive members.
- BC11 In response to this feedback the Board proposes to explain the role of non-executive members when identifying the chief operating decision maker. The Board proposes to clarify that in the case of a group of people, the chief operating decision maker is the forum in which decisions (which are described in the proposed revised paragraph 7 of IFRS 8) are made, even if some members of that group do not take part in such decision making.
- BC12 The Board believes that these clarifications to IFRS 8 will address some key concerns expressed by preparers about identifying the chief operating decision makers in practice.

Identification of the reportable segments of the entity (paragraphs 19A, 19B and 22(d))

- BC13 When it issued IFRS 8, the Board expected that a benefit of the management approach would be that entities would report segment information in a manner consistent with the way they reported similar information in other parts of the annual report. During its investigation of the points raised on the identification of reportable segments, the Board found that when an entity reports the same segments in the financial statements, management commentary and other types of financial presentations, the entity cross-validates the three sets of data. Users of financial information have told the Board that they view segment information as more credible if it is the same in all of the entity's reports. Users also expect that when the segment information is reported using the management approach there will be consistency in applying this approach across a range of documents.
- BC14 However, in practice, segments reported in the financial statements sometimes differ from those used for the management commentary or other types of financial presentations. This can make it more difficult for users of financial statements to understand the segment information and to rely on it.
- BC15 Many securities regulators told the Board that they challenge an entity when it identifies different segments in different documents. Some securities regulators also told the Board that because the identification of operating segments is based on management's judgement, it can be difficult to enforce compliance with the requirements in this area.
- BC16 To address users' and regulators' concerns about the lack of consistency in identifying segments across an entity's communications, the Board proposes amendments to paragraphs 19A and 22(d) of IFRS 8. These proposed amendments would 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.

- BC17 The Board proposes that an entity shall compare the segments reported in its financial statements not just with the rest of the entity's annual report, but with the whole of the annual reporting package, as described in proposed paragraph 19B of IFRS 8. This is because the annual report is not the only source of segment information users of financial statements use in evaluating an entity's activities. Consequently, limiting the required comparison to the annual report would be too restrictive.
- BC18 IFRS Standards set requirements for financial statements and not for management commentary and other reported information. Consequently, the Board concluded that it was not in a position to mandate consistency in the identification of segments between the financial statements, the management commentary and other reported information.
- BC19 However, the proposed amendments to paragraphs 19A and 22(d) of IFRS 8 are proposed in order to assist in addressing the concerns raised by users and regulators. The Board expects that requiring an entity to disclose in the notes to the annual financial statements an explanation of how and why the reportable segments identified in the entity's financial statements differ from those identified in other parts of the entity's annual reporting package will reinforce the management approach used in IFRS 8 and encourage consistent identification of segments.

Aggregation criteria (paragraphs 12 and 12A)

- BC20 IFRS 8 specifies that two or more operating segments may be aggregated into a single operating segment if the aggregation is consistent with the core principle of IFRS 8, if the segments have similar economic characteristics and if the segments are similar in respect of the five criteria set out in paragraph 12(c) of the Standard.
- BC21 Applying the aggregation criteria for operating segments is one of the key judgements that management has to make in preparing and disclosing segment information. The PIR showed that many preparers and auditors find this judgement difficult in practice and that regulators frequently challenge aggregation. To address this concern, the Board amended IFRS 8 in 2013 (as part of *Annual Improvements to IFRSs 2010–2012 Cycle*) and included a requirement to disclose in the notes any judgements management makes in applying the aggregation criteria in paragraph 12 of IFRS 8.
- BC22 In addition to commenting on the general issue about aggregation of operating segments, many respondents expressed the view that providing only one example, of gross margin percentage in paragraph 12 of IFRS 8, is not sufficient for assessing whether two segments have similar long-term financial performance. Respondents said that two segments could have the same gross margin yet have different economic characteristics. They suggested that considering several measures of long-term financial performance would result in a more thorough assessment of whether aggregation would be appropriate. They further suggested that adding additional examples would reduce inappropriate aggregation.

- BC23 The Board noted that it intended gross margin as only one example and that paragraph 12 of IFRS 8 contained the overall principle for aggregation. Consequently, to improve application, the Board proposes that the example in paragraph 12 be supplemented with additional examples, such as revenue growth and return on assets. 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.
- BC24 The Board proposes changing the structure of paragraph 12 of IFRS 8 by splitting it into two paragraphs that reflect the three-part process that management would follow in its assessment of which operating segments may be aggregated into reportable segments.

Disclosure

Disclosure of the chief operating decision maker (paragraph 22(c))

- BC25 During the PIR, many users of financial statements told the Board that disclosing who the chief operating decision maker is would provide useful information about how the business is run and the level at which decisions are made. Regulators and auditors also thought that explicit identification of the chief operating decision maker would make the entity's decision-making process more transparent.
- BC26 Accordingly, the Board proposes that IFRS 8 should require an entity to disclose the title and description of the role of the individual or the group that is identified as the chief operating decision maker.

Disclosure of specified items (paragraph 20A)

- BC27 The core principle of IFRS 8 states that an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.
- BC28 Paragraphs 23 and 24 of IFRS 8 require the disclosure of a number of items for each reportable segment, if the specified amounts are reviewed by, or are regularly provided to, the chief operating decision maker.
- BC29 Many users of financial statements told the Board that the items listed in paragraphs 23 and 24 of IFRS 8 did not always provide them with the information that they need to make comparisons across entities. Most users of financial statements who took part in the PIR wanted the Board to mandate disclosure of specified items. At the same time, users of financial statements observed that it would be difficult to decide which line items should be required because some line items are more relevant for some industry sectors than for others.
- BC30 The Board understands users' concerns. However, the Board also noted that requiring disclosure of items that are not reviewed by, or regularly provided to, the chief operating decision maker is not consistent with the management approach that underlies IFRS 8. The Board notes that entities may disclose additional items whose disclosure is not required by paragraphs 23 and 24 of the

Standard if disclosing those additional items would help the entity to meet the core principle of IFRS 8. This is the case even if the additional information is not reviewed by, or regularly provided to, the chief operating decision maker.

- BC31 Because IFRS 8 is based on the management approach, the Board understands that some people might conclude that entities may disclose only what is reviewed by, or is regularly provided to, the chief operating decision maker. In the Board's view, that is not a valid reading of what IFRS 8 requires. Nevertheless, for the avoidance of doubt, the Board proposes clarifying in paragraph 20A of IFRS 8 that an entity may disclose more information than required by paragraphs 23 and 24 if such additional disclosure helps the entity to meet the core principle of the Standard.

Reconciliations

Fuller explanation of reconciling items (paragraph 28A)

- BC32 An entity is required to reconcile segment amounts presented using the management approach to the corresponding amounts for the entity as a whole. Paragraph 28 of IFRS 8 requires all material reconciling items to be separately identified and described. Paragraphs IG3-IG4 of IFRS 8 include six examples of reconciliations of various items of segment information to the corresponding amount in the entity's financial statements.
- BC33 Most preparers who took part in the PIR told the Board that the requirements for reconciliations are clear and that it is straightforward to comply with them.
- BC34 Many users of financial statements as well as regulators asked for the reconciliations to be prepared segment-by-segment. Preparers and others who took part in the PIR, however, cautioned against a segment-by-segment reconciliation, saying there would be no systematic basis for allocating reconciling items to reportable segments. They suggested that non-systematic allocations would reduce the value of the additional segment information.
- BC35 Some users of financial statements accepted this view and reported that if a fuller explanation was provided about the nature of the reconciling items, including an explanation of why the reconciling items have not been allocated to reportable segments, the investors themselves would be better able to assess how the reconciling items would affect individual segments.
- BC36 The Board considered the various views. The Board proposes that IFRS 8 should require a fuller explanation of the nature of individual reconciling items. This would enable users of financial statements to better understand the effect of these items on individual reportable segments. In support of this, the Board also proposes to include more examples of reconciling items in the Standard, in paragraph 28A.
- BC37 The Board does not propose requiring that all reconciling items be allocated to reportable segments. It accepts the view that this could require arbitrary or non-systematic allocations that would limit the value of any analysis of the reconciling items by segment.

Transition (paragraph 36D)

BC38 The Board proposes that an entity shall apply the amendments retrospectively. Consequently, users of financial statements will have segment information presented on the same basis for current and prior periods. The Board does not consider that the retrospective application of the amendments is onerous because they:

- (a) deal solely with disclosure, rather than recognition and measurement;
and
- (b) mainly clarify existing requirements rather than imposing new requirements.

Basis for Conclusions on the proposed amendment to IAS 34 *Interim Financial Reporting*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments. It summarises the considerations of the International Accounting Standards Board (the Board) when developing the proposed amendments. Individual Board members gave greater weight to some factors than to others.

Introduction

BC1 The feedback received from the PIR of IFRS 8 *Operating Segments* confirmed that segment analysis is important information for users of financial statements. Many users of financial statements model data series, collected over a number of years, to predict an entity's future performance. However, the Board was informed about examples of entities that changed the compositions of their reportable segments frequently. Such frequent changes prevent users of financial statements from carrying out trend analyses of reportable segments as part of their decision-making process.

Proposed amendment to IAS 34

Preservation of trend data on changes in compositions of reportable segments

BC2 Paragraph 29 of IFRS 8 requires information for earlier periods to be restated whenever an entity changes the composition of its reportable segments, unless the information is not available and the cost to develop it would be excessive. Because information about reportable segment trends is particularly useful to users of financial statements, some respondents to the PIR suggested that the number of earlier periods required to be restated should be increased to three or five years.

BC3 However, some preparers said that preparing restated information for the additional time periods could be onerous. They were also concerned that additional external costs would be incurred in auditing the restated information. These preparers reported that, in some cases, the information might not be available if the required detail had not been collected in the earlier periods, especially if businesses were acquired or disposed of during those periods.

BC4 Other preparers said that the information was likely to be available because restated information would have been used when management made its decision to change the structure of the internal organisation. They argued that sophisticated reporting systems that cover many sub-entities can be reorganised without undue cost when the management structure changes.

BC5 Nevertheless, the Board was concerned that requiring restated information for three to five years prior to the change might place an unreasonable burden on preparers. The Board also noted that auditing those restated amounts could be costly. The Board concluded that these additional burdens might be

disproportionate to the benefit to users of financial statements because business circumstances, such as markets, products and business models, can change frequently.

Restatement of interim period information

- BC6 Many users of financial statements who took part in outreach after the PIR reported that information about the previous year is more important than information for the period(s) that precede the previous year. These users of financial statements believe that the first interim report after a change in the composition of reportable segments should include a restatement of interim segment information for the previous financial year, ie the four quarters or the two six-month periods of the previous year. This would enable users of financial statements to update any models that are based on interim reporting intervals when the change in segments is first reported.
- BC7 The interim information of the prior annual reporting period is currently required to be restated, but an entity does not need to provide the restated information for a comparative interim period until information for that corresponding current interim period is reported. This can mean that users of financial statements have to wait for a full year's interim reporting cycle to be completed before they receive restated segment information for each comparative interim period.
- BC8 Following its research, the Board proposes that all interim periods of the prior financial years shall be restated and presented in the first interim financial report after a change in the composition of reportable segments. This would not require the preparation of any additional information—the restatements already required would simply be presented earlier. Presenting those restatements in the first interim report after the change would enable users of the financial statements to update their modelling of data and trend information in a timely manner.
- BC9 The effect of this proposed change can be illustrated by reference to an entity that reports quarterly and has an annual financial reporting date of 31 December:
- (a) 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 the 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; or
 - (b) if the composition of the entity's reportable segments was changed on 1 April, its interim financial report for the period ending 30 June (ie second quarter) would be the 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 addition to information for the first quarter of the current year based on the new composition of reportable segments.

Excessive cost test

- BC10 Paragraphs 29 and 30 of IFRS 8 state that an entity need not restate corresponding information for earlier periods, including interim periods, if the information is not available and the cost to develop it would be excessive. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. Paragraph 100 of the Appendix to the Basis for Conclusions to IFRS 8 explains why the Standard includes the 'excessive cost test' for restatements of earlier periods. The Board proposes including the same test in the requirements in IAS 34 for the earlier presentation of interim information for reportable segments. The test will apply for individual items of disclosure.

Transition (paragraph 58)

- BC11 The Board proposes that an entity shall apply the amendments retrospectively. Consequently, users of financial statements will have segment information presented on the same basis for current and prior periods. The Board does not consider the retrospective application of the amendments onerous because they do not require new information to be disclosed but only accelerate the timing of existing disclosure requirements.



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