IFRS 8 Post-implementation Review: Reflecting on the IASB's Report and Feedback Statement

Background

1. The AASB published ITC 27 *Request for Comment on IASB Request for Information on Post-implementation Review: IFRS 8 Operating Segments* in July 2012 with the comment period ending on 11 October 2012. The post-implementation review process for IFRS 8 was completed in 2013. The IASB's Report and Feedback Statement *Post-implementation Review: IFRS 8 Operating Segments* was published in July 2013 (see agenda paper 7.3).

Purpose of this paper

2. The purpose of this paper is to highlight major areas of findings by the IASB and provide staff comment, including recommendations for possible further action, on the IASB's response to issues raised in the AASB submission on the RFI.

The IASB findings

3. The Report and Feedback Statement (RFS) concludes that the benefits of applying IFRS 8 were largely as expected and that overall the Standard achieved its objectives and has improved financial reporting.
4. The RFS notes that some investors have concerns about the information provided when segment information is disclosed in accordance with IFRS 8. However, the evidence provided does not suggest that there are any significant failings in the Standard warranting a revision of the principles on which the Standard is based.
5. The RFS, however, identifies a number of issues that could be considered for improvement and that warrant further investigation. These include feedback that:
   - The concept of an identifiable Chief Operating Decision Maker (CODM) is confusing and outdated, and that the identification of the CODM is difficult in practice.
   - Some preparers are uncertain about presentation and disclosure of the reconciliations and some investors find the items included in the reconciliations difficult to understand.
6. The RFS also notes areas for improved disclosures that may include:
   - Improvements to avoid the loss of trend information for investors on a change in the basis of segmentation from one year to the next.
   - Requiring disclosure of some defined line items in order that investors can calculate their own sub-totals for operating result or cash flow.
   - Providing guidance on the nature of 'similar economic characteristics' including the reconsideration of the use of quantitative thresholds with a view to assisting preparers in applying the aggregation guidance more consistently
   - Improvements to the reconciliation requirements, including whether such information should be provided by segment in some cases.

   The RFS notes that the IASB staff will research the above issues and provide their findings and recommendations to the Board in the future.
7. The AASB submission on the IASB RFI included comments in relation to a number of areas pertinent to the application of IFRS 8. The Table on the next page highlights the major areas of comment by the AASB and the IASB's view of the message received and related response.

Major areas of Comment by the AASB and related IASB Response

AASB's submission	Relevant 'Message received' per the IASB's Report and Feedback Statement (RFS)	IASB's relevant response per the IASB's Report and Feedback Statement (RFS)	AASB staff comment
Changes in reported segments: • An Australian academic research study indicated that the adoption of IFRS 8 resulted in an increase in the number of segments disclosed compared with that under IAS 14 *Segment Reporting.* This increase occurred in both entities previously disclosing a single segment or multiple segments. • The research found that the change in the number of segments reported have some relationship to the number of segments reporting a loss and increase in single segment disclosure was by entities commonly operating in relatively concentrated (less competitive) industries. There were indications that these entities have higher growth options and are more profitable than those that did not change the number of segments reported.	**Increase in reported segments:** Academic research shows that fewer entities reported only one segment after the implementation of IFRS 8, but otherwise most companies reported no change in the number of reported segments. Companies that did report a change generally reported an increase in the number of reported segments. Nonetheless, investors would like less aggregation and would like the number of reported segments to increase.	When we issued IFRS 8 we expected that there would be fewer single-segment entities when the Standard was applied because we did not think that many entities were managed as a single segment. We think that the small increase in reported number of segments will provide more detailed, and hence more useful, information for investors. We note that investors would like reported segment information to be as detailed as possible.	Staff note that the IASB has acknowledged that investors would like less aggregation and would like the number of reported segments to increase. Staff view: No further follow up needed.
• The research found multiple segment entities that did not change the number of segments disclosed (compared to under IAS 14) showed a reduction in the number of line items disclosed. The research attributed this to the flexibility in the extent of per-segment disclosure under IFRS 8. The extent of reduction in the disclosure of line items was found to be negatively associated with the existence of loss-making segments, size and	**Reduction in some reported line items:** Investors were concerned that some entities no longer report particular key line items, such as depreciation, gross margin and cash flow, by segment. Academic research confirms that there has been a decrease in the number of some key	This is a difficult area to address. We accept the importance of some line items to investors but prescribing line items conflicts with both the core principle of IFRS 8 and concerns that we have received about disclosure overload. This is an area that warrants further investigation and we think that	Staff note that the IASB has acknowledged that this is an area that warrants further investigation and thinks that it should be assessed as part of the work on the development of a disclosure framework. Staff view: No further follow up is needed. Staff will monitor the

AASB's submission	Relevant 'Message received' per the IASB's Report and Feedback Statement (RFS)	IASB's relevant response per the IASB's Report and Feedback Statement (RFS)	AASB staff comment
the existence of outside equity interest in the group. The reduction in line items was found to be higher for entities operating in more concentrated industries.	reported line items, especially in relation to segment liabilities and capital expenditure.	it should be assessed as part of the work on the development of a disclosure framework.	progress of IASB work on this issue.
Issues arising from the CODM notion: • The AASB has continued to support the IFRS 8 'through the eye of management approach' to segment reporting. However, the AASB believes that the approach could be further improved if it were more principle-based and both avoided the rule-based criteria arising from the application of the notion of the chief operating decision maker (CODM) and the somewhat out-of-date presumption that the CODM would necessarily be looking at aggregated paper-based information incapable of being extracted in fine detail in various alternative ways. • The CODM is able to extract and review information at different sub-segment levels and, therefore, has a choice of information to be used for making decisions, which could affect the identification of operating segments under IFRS 8, without reflecting the way the business is managed. A similar situation may be envisaged where different members of the CODM have access to different levels of information, which then becomes common knowledge of all members.	**The identification of CODM:** Many preparers find it difficult to identify the CODM and some are uncertain at what level that role should be in an entity's management hierarchy. Respondents also debate whether the role is principally strategic or operational.	The practical difficulties associated with the identification of the CODM have been known for some time. This is primarily a one-time issue that arises when first applying IFRS and consequently is of more concern to first-time adopters than in jurisdictions that currently apply IFRS. In order to support first-time adopters, we will consider reviewing this requirement and consider how this requirement could be made more clear.	The IASB's response seems to suggest that the practical difficulties associated with the identification of the CODM is primarily a one-time issue. Elsewhere the RFS (see the table on page 7 of the RFS) acknowledges the commentators' concern that the concept of CODM is confusing and outdated, and that the identification of the CODM is difficult in practice. However, the reflection of participant's suggestion in regard to this issue (see the table on page 7 of the RFS) is confined to provision of more guidance or replace 'CODM' with a more common term, such as 'key management personnel' (KMP) There is no mention of the AASB's suggestion that that the approach could be further improved if it were *more principle-based* and both avoided the rule-based criteria arising rom

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• The AASB believes the identification of segments would be more robust if it were based on a principle that focuses on how an entity's business is actually organised and managed segmentally rather than by reference to a proxy for that, being the review of information by the CODM.			the application of the notion of CODM. Staff view: Staff believe this is a key issue and warrants a further follow up letter to the IASB Chair from the AASB Chair.
Entity-wide disclosures: • There is a concern in Australia that the entity-wide disclosure requirements in IFRS 8 are not fully adhered to due to a perceived lack of relevance in a segment reporting context. In particular, inclusion of entity-wide disclosures in the segment standard can lead to them being overlooked by single segment entities. • The IASB is encouraged to review the entity-wide disclosure requirements under IFRS 8 for relevance and with a view to improving their visibility, possibly in the context of the entity-wide disclosure requirements of other Standards (such as IAS 1 *Presentation of Financial Statements*) within a more broadly based disclosure framework.	**Entity-wide disclosures:** Many participants think that entity-wide disclosures are poorly understood. Some see them as a supplement to replace the secondary disclosure requirements of IAS 14. Many think that entity-wide disclosures are inconsistently applied across entities and it is claimed that regulators frequently challenge the entity-wide disclosures made.	We accept that the disclosures required are difficult to systematise and are often not reviewed by the CODM. We think, however, that they provide useful information to investors and consequently we do not think that this area warrants any changes at this time.	The IASB does not think the area of 'entity-wide disclosures' warrants any changes at this time. Staff view: Staff believe that these disclosure requirements are overlooked by preparers and encourage the IASB to improve their visibility as suggested by the AASB. The AASB might want to draw the IASB's attention to benefits of improving the visibility of 'entity-wide disclosures'.

8. As the above table depicts, the practical difficulties associated with the identification of the CODM have been regarded as primarily a one-time issue in the RFS. The RFS, however, acknowledges the commentators' concern that the concept of CODM is confusing and outdated, and that the identification of the CODM is difficult in practice

9. The AASB comments on the notion of CODM draws attention to a fundamental issue that the identification of segments would be more robust if it were based on a principle that focuses on how an entity's business is actually organised and managed segmentally rather than by reference to a proxy for that, being the review of information by the CODM.

10. Staff believe that the AASB comments on entity-wide disclosures particularly the suggestions for improving the visibility of disclosure requirements in order to avoid being overlooked by preparers are valid comments and the IASB should be encouraged to takes steps in that direction.

Staff view

11. Staff believe that the 'principle based' versus 'rule based through the eye of management approach proposed by the AASB in its submission on the IASB RFI is a key issue that warrant a further follow up letter to the IASB Chair from the AASB Chair. The Board might want to also draw the IASB's attention to benefits of improving the visibility of entity-wide disclosures.

Question to the Board:

(a) Does the Board have any comments on the IASB's Report and Feedback Statement?

(b) Does the Board agree with further follow up of the issues raised in paragraphs 9 and10 above?