

International Accounting Standards Board
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Via email: commentletters@ifrs.org

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Dear members of the IASB

Exposure Draft: Improvements to IFRS 8 Operating Segments

The Corporate Reporting Users' Forum welcomes the opportunity to comment on the Exposure Draft *Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)* (the 'ED') issued by the International Accounting Standards Board (IASB) in March 2017.

We support the direction to improve IFRS 8 in light of the post-implementation review. We agree with all of the amendments proposed in the ED, with the exception of the addition of Paragraph 22 (d). Our concern is that the addition of Paragraph 22 (d) may create a disincentive for preparers to provide useful voluntary disclosures through their annual reporting packages. We therefore do not support that addition.

Other than the above, we believe the proposed amendments will improve the usefulness of segment information to users of the financial statements.

In addition, we would like further improvements on segment disclosure by requiring more detailed information. As companies diversify their operations, it is increasingly essential for users to analyse earnings information by segment. Nevertheless, current disclosure of segment information for many companies provides no insight on profit structure within reportable segments because of a lack of detailed disclosure about some cost information such as employee benefits expenses and costs of raw materials, although depreciation expenses by segment are disclosed occasionally.

Our response to this discussion paper is set out below.

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?

While we generally welcomed IFRS 8, we think with hindsight that it has a number of weaknesses. First, we have seen some cases where the selection of the Chief Operating Decision Maker (CODM) is inappropriate. This is crucial as segment disclosures are based on management information reported to the CODM. If the CODM is given very little information, then the disclosure requirement becomes ineffective. In one case for example, the entire Board of Directors was identified as the CODM even though it “does not review assets and liabilities by business”. The note in this company’s financial statements then adds that the Board of Directors is responsible for “allocating resources and evaluating segment performance” despite having no information about the assets and liabilities in each segment. As a result this company only reveals sales and adjusted EBITA for each segment. Adjusted EBITA is defined as “EBITA before restructuring costs and before other operating income and expenses” and is not reconciled to any metric or subtotal that was prepared in compliance with IFRS at the segment level. In effect the only IFRS number that this company releases for each segment is sales revenue. It claims to comply with IFRS 8.

We recognise that enforcement of IFRS is down to the local regulator, with unavoidable variability, but we think that the IFRS should be using language that minimises the ability of companies to interpret standards creatively. It should be made clear that the CODM will be the person or persons in executive control and that entire boards (which may include non-executives who receive limited operational data) cannot plausibly claim to be in operational control, unless each member of the board, including non-executives, receives all the relevant data. This loophole should be closed.

Companies are expected to report detailed segment results (including major changes in costs) to the CODM. Although such cost information would be extremely useful to the users of the financial statements, it is not disclosed within segment information. Many companies voluntarily provide supplemental information for each reportable segment result within their annual reportable packages.

We believe the IASB should consider requiring further disclosures of key financial data that is not currently disclosed but is nonetheless reported to the CODM, in order to improve the usefulness of segment information. More specifically, we propose that the requirement similar to paragraph 104 of IAS 1 (“An entity classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense”) be included in IFRS 8 so as to require disclosure of cost breakdowns by segment.

We suggest that the IASB consult with corporate governance experts before finalising the amendments to ensure that the final definition of CODM reflects operational control with respect to those matters that have not been reserved for the board. We note that asset and resource allocation to divisions and projects in particular is a board matter for many companies. Consequently, such a definition would automatically result in many companies stating that the board is the CODM of each division. As discussed above, this is effectively a loophole or misconstruction that does not result in relevant information to users. From the users’ perspective, the CODM effectively needs to be the key executive and/or his or her divisional board

(i.e. the same people who would be the CEO and the executive committee if the division were a standalone company), and the CODM definition should be chosen accordingly.

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?

IFRS 8 requires companies to disclose total assets by segment which is of very limited use as it does not give any indication of the amount of liabilities. We would like to have either 1) net assets, or preferably 2) gross assets and gross liabilities for each segment, with a reconciliation of the segment totals to the entity. Segment reporting is supposed to be about helping users understand segment performance. Without a net asset number, users cannot assess how each segment is performing versus the money that has been invested in that segment. The additional burden on companies would be minimal and the increased disclosure would be very beneficial for any user who wants to understand segment returns.

Some participants are of the view that when grouping segments, the segments that are aggregated should be of a similar nature and should not be located in fundamentally different geographies or be subject to different currency volatilities. It is difficult to understand the fundamentals of a business if a segment includes disparate underlying economic factors.

See Appendix 1 for further views from CRUF Canada in relation to this.

Question 3

The Board proposes a clarifying amendment in paragraph 20A of IFRS 8 to say that an entity may disclose segment information in addition to that reviewed by, or regularly provided to, the chief operating decision maker if that helps the entity to meet the core principle in paragraphs 1 and 20 of IFRS 8 (see paragraphs BC27–BC31 of the Basis for Conclusions on the proposed amendments to IFRS 8). Do you agree with the proposed amendment? Why or why not? If not, what do you propose and why?

We agree with this and believe it addresses some of the concerns raised in our response to question 1.

Question 4

The Board proposes a clarifying amendment in paragraph 28A of IFRS 8 to say that explanations are required to describe the reconciling items in sufficient detail to enable users of the financial statements to understand the nature of these reconciling items (see paragraphs BC32–BC37 of the Basis for Conclusions

on the proposed amendments to IFRS 8). Do you agree with the proposed amendment? Why or why not? If not, what do you propose and why?

We agree as this would provide needed transparency in segment disclosures.

Question 5

The Board proposes to amend IAS 34 to require that after a change in the composition of an entity's reportable segments, in the first interim report the entity shall present restated segment information for all interim periods both of the current financial year and of prior financial years, unless the information is not available and the cost to develop it would be excessive (see paragraphs BC2–BC10 of the Basis for Conclusions on the proposed amendments to IAS 34). Do you agree with the proposed amendment? Why or why not? If not, what do you propose and why?

We agree. If companies decide to change their segments we would expect that they should be able to provide comparable data in their disclosures.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

Yours faithfully,

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Appendix 1

CRUF Canada's comments on *Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)*

In light of the IASB's current work on the Exposure draft: *Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)*, CRUF Canada would like to share with the IASB Staff comments which arose in a recent meeting on the topic of segment reporting.

In our meeting on April 13, 2017, CRUF participants discussed the segment disclosure of a Canadian Supermarket chain, Loblaw Companies Limited (Loblaw). In 2014, Loblaw acquired the shares of Canada's largest pharmacy chain, Shopper's Drug Mart. The segment note in Loblaw's current financial statements includes three reportable segments: Retail, Financial services and Choice properties. The note explains that the Retail segment represents the aggregation of several operating segments primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base. Furthermore, the Retail segment contains both the grocery and pharmacy operations. Participants noted that these are operationally very different businesses in terms of their growth, margins, assets utilised in the business, demography, cyclicity, regulations, etc. The real estate and financial services segments, which represent a significantly smaller proportion of the business are provided, and yet, there is no separate disclosure of grocery and pharmacy. The group discussed the segments disclosed in the legacy Shopper's Drug Mart (Shoppers) financial statements prior to their acquisition. Historically, Shoppers disclosed both pharmacy (OTC and prescription) and front store in their segment disclosure, which CRUF members noted would be consistent with what they would expect to see in the current Loblaw statements.

The Canadian CRUF recognises that segment disclosures by definition should reflect the information as viewed through the eyes of management in making resource allocation decisions. Participants noted that it is implausible that decisions are not made based on the disaggregated information. We also recognise that decisions may be based on the disaggregated information, but that the standard allows aggregation for reporting purposes. If aggregation of these operating segments is acceptable under the current standard, our view is that the aggregation criteria are currently insufficient. Participants noted that the disaggregated information, while useful to investors, may be sensitive from a competitive standpoint. However, it was agreed that there are ways to present information in order for it to be more useful without giving away a competitive advantage.

Participants remain skeptical that the standard is applied consistently as intended by the IASB. The disclosure from any number of companies could have used in place of the Loblaw example as these issues with segment disclosures are pervasive. Although no specific recommendations were discussed during the meeting, we encourage the IASB to consider whether better interpretation guidance, the addition of a few targeted rules, or other measures that would encourage the application of greater professional judgement by accounting professionals.