Exposure-Draft ED/2017/2: Improvements to IFRS 8 Operating Segments - Proposed amendments to IFRS 8 and IAS 34

Dear Hans,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board’s Exposure-Draft (hereafter ED) Improvements to IFRS 8 Operating Segments - Proposed amendments to IFRS 8 and IAS 34, issued on 30 March 2017.

We welcome the Board’s efforts to address comments made during the post-implementation review of IFRS 8, especially those which aim at clarifying the existing principles and requirements on:

- The function of the CODM and where the CODM is a group, the fact that this group may include non-executive members;
- Explanations to be provided on reconciling items between IFRS 8 information and the IFRS information for the entity as a whole.

We disagree with the Board’s other proposals:

- Some seem to be overstepping the mark. This is the case for the requirement to disclose differences in presentation of sectors between IFRS 8 segment information and segment information presented outside of the financial statements;
- Some may lead to increasing any differences between segments disclosed under IFRS 8 and segments disclosed outside of the financial statements:
  - The mention of operating decisions in the definition of the CODM;
  - The mention of “across a range of measures” to describe similar long-term financial performance as regards aggregation criteria.
- Others are not relevant nor particularly useful for users. This is the case for:
  - Requiring that an explanation of the role of the CODM be disclosed, given that governance aspects are usually provided outside of the financial statements;
  - Proposing that segment information that is not regularly reviewed by the CODM be provided in addition to segment information required under IFRS 8, as this is contradictory with the principle which underlies IFRS 8;
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- Mentioning return on assets as a measure of long-term financial performance;
- The requirements on comparative interim information after a change in the composition of an entity’s reportable segments.

In addition we note that the Board is exposing the issue of linking financial information of the financial statements with that provided outside the financial statements in two different documents: in the present consultation and in the Discussion Paper on Principles of Disclosures. These consultations have very different statuses of discussion and different timelines for finalisation. We consider that the Board should not conclude on the proposal in the present consultation before it concludes on the broader consideration of this topic in the Discussion Paper. In addition this topic raises the issue of annual reporting package vs annual report, the resolution of which would not be adequate within the confines of IFRS 8.

Our detailed comments to the questions raised in the Exposure-Draft are set out in the Appendix.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
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?

We consider that the standard generally works well as it is.

Therefore, we agree with the amendment which emphasizes what is already said by the standard, namely that the CODM is a function which may be carried out either by an individual or a group and welcome the amendment clarifying that, when that function is a group, that group may include non-executive members.

We are not convinced by the amendment which adds the notion of operating decisions to the definition of the CODM and have not encountered in practice any contradiction, as mentioned in BC 6-7, between the label of CODM and the strategical decision of allocating resources to segment. In fact, we are concerned that this addition may lead to lowering the level of the CODM and therefore to disclosing more operating segments than currently. This would increase the potential for differences between the operating segments presented under IFRS 8 and those presented outside the financial statements (the difference which the IASB seeks to address by the proposed amendment discussed under Question 2 (a)).

In addition, we are not convinced by the proposed requirement to describe within the notes the role of the individual or the group identified as the CODM. Very often the title of the CODM will be self-explanatory given the regulated governance companies are subject to and for which information is usually provided elsewhere in the annual report. We are therefore concerned that such description would actually bring in too much detail which would generally be provided outside the financial statements and contradicts the objectives of the disclosure initiative of providing relevant information and reducing disclosure overload.
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?

(a) Explanation of differences in segments between IFRS financial statements and annual reporting package

We understand the objective of consistency between information provided within the financial statements and information provided outside the financial statements.

We disagree however with the proposal to require the disclosure of an explanation within the notes to the financial statements of differences, if any, between segments presented within the financial statements and segments presented elsewhere in the annual reporting package.

We consider that it is not the place for the financial statements to do so. If an explanation is to be provided, it should be provided, in our view, in the instances where the company provides segment information outside the financial statements, such instances not being, in our view, within the IASB’s remit.

We would like to remind the Board that, to get to the segments presented under IFRS 8, the standard refers to the management approach for the identification of segments. These segments are then aggregated into reportable segments with specific criteria which may or may not be the criteria applied by management for the segments presented outside the financial statements, which would therefore lead to differences in presentation.

We also note that the IASB’s Discussion Paper on Principles of Disclosure also proposes in its principles for effective communication that the linkage between financial statements and the annual report be taken into account and explained (DP 2.6 (d)). We question the process by which the Board is putting out for consultation the same topic for which the status of the discussion and the finalisation dates are so different. Therefore, we consider that the Board should not conclude on this issue within this Exposure-Draft on IFRS 8.

In addition, we note that the Board refers here to the annual reporting package and in the above-mentioned Discussion Paper to the annual report, which, beyond being confusing, begs the question of the IASB possibly treading on other institutions’ remit in some jurisdictions.
Finally, whilst we are aware of some emblematic examples of differences of segment presentation between financial statements and other documents, we do not consider that this occurs to any sufficiently wide extent that it needs to be addressed in such a way by the IASB.

For all of the above-reasons we are of the view that the IASB should drop this proposed requirement.

(b) Aggregation criteria

First of all, we question why the IASB proposes to add ‘if and only if’ in IFRS 8.12. No explanation for what may be perceived as ‘tightening’ the requirements is provided in the Basis for Conclusions. We therefore encourage the Board to explain whether this change is intended to lead to a different reading of the text or not.

We welcome the proposal to add additional examples regarding the notion of ‘similar long-term economic performance’ in IFRS 8. We are concerned however that the mention of ‘across a range of measures’ would lead to less aggregation than currently, thus increasing the number of segments presented and leading to further differences than currently with segments presented outside the financial statements (see our answer to Question 2 (a)). This mention seems to imply that the examples provided are cumulative.

In addition, we consider that the return on assets measure proposed as an example is not representative of financial performance as such return would, in particular, differ between activities that are acquired vs internally developed similar activities.

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 the principle in IFRS 8.20A of providing additional segment information if that helps the entity to meet the objectives of the standard. We note however, that the fact that such information may be information that is not regularly reviewed by the CODM contradicts the principles on which IFRS 8 is constructed. We do not understand how information that is not useful to a CODM to manage the business (and therefore is not regularly reviewed by him) could be considered useful to the users of financial statements. We would therefore recommend that the Board drop this sentence.
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 with the 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).

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

The Board’s proposal is to be understood in the context of preserving data trends as discussed in the Basis for Conclusions in paragraphs BC2 to BC6. However, the trends users need cannot be built based on, as is generally the case, less than one year of comparatives.

We agree with the Board’s decision not to require restated comparatives for years that precede the previous year for the reasons explained by the Board in [draft] BC 5 of the amendment to IAS 34. Adding restated segment information for all interim periods of the current and immediately preceding year would in our opinion not be very useful to users of financial statements: it would only enable users to compare one quarter to another, and the periods that are not currently required by IAS 34 would not have their corresponding comparative of the previous year.

We are therefore not convinced that the arguments of “timely input in the users’ models” put forward in the Basis for Conclusions are compelling enough to change the principles on comparatives for interim periods solely for the purposes of segment reporting.

Moreover, we do not see any rationale for having this “timely input” after a change in the composition of an entity’s reportable segments, and not after a change in accounting principles.