INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

60 Cecil Street ISCA House
Singapore 049709
TEL +65 6749 8060
FAX +65 6749 8061

Global Mindset, Asian Insights

3 August 2017

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

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – IMPROVEMENTS TO IFRS 8 OPERATING SEGMENTS (PROPOSED AMENDMENTS TO IFRS 8 AND IAS 34) ("ED")

ISCA sought views from its members on the above ED through a two-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms.

We welcome and support IASB's initiative in subjecting various IFRSs to Post-Implementation Reviews (PIRs) and, subsequently providing improvements to the IFRSs in response to feedback gathered during the PIRs.

However, in our view, IFRS 8 does not provide a robust basis to determine reportable segment that best addresses users' needs in relation to segment information. The proposed amendments to clarify the identification of the chief operating decision maker ("CODM") and the requirement to explain why segments identified in the financial statements differ from segments identified in other parts of the entity's annual reporting package does not address this fundamental weakness of IFRS 8.

Our detailed comments and responses to the questions in the ED are 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?

We understand that the Board's proposed amendments are intended to provide clarity on the identification of the CODM. However we are of the view that the proposed amendments are theoretical and will not have much impact on companies' existing practices when applying IFRS 8. In practice, the CODM is a hypothetical notion and it is difficult to identify who exactly is the CODM within an organisation i.e. who actually makes operating decisions based on segment information categorised in the same way as in the general purpose financial statements. Hence the use of the notion of CODM as a reference point may not result in the reporting of segment information that meets the needs of external users (for example equity analysts who use the information to form a target value of the equity securities). In reality, the identification of the CODM seldom has any substantial practical implications on companies' decisions regarding their reportable segments.

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 environment in which it operates*".
Proposed amendments to paragraph 12 of IFRS 8 allows aggregation of operating segments if the aggregation is consistent with the core principle, the segments have similar economic characteristics and if the segments are similar with regards to certain stipulated aspects such as the nature of its products/services, production processes and class of customers.

The broad definition of operating segment under IFRS 8 together with the "too flexible" aggregation criteria does allow management to circumvent the core principle such that the reportable segments disclosed in general purpose financial statements are more preparer-centric rather than user-centric. Notably, the core principle, broad definition of operating segment and paragraph 12 of IFRS 8 does not have a specific reference to 'risk', or a requirement for reportable segments to have similar risks, similar valuation factors or similar business models. In addition, there is a presumption within IFRS 8 that management makes the appropriate determination of user needs in relation to segment information.

In our view, the above is an indication of a fundamental weakness of IFRS 8 – a lack of a robust basis to determine reportable segments that best addresses users' needs for general purpose financial statements. Hence we have doubts regarding the value of the proposed amendments in providing users with better quality segmental information.

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?

<u>Proposed paragraph 22(d) requires 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</u>

With regard to proposed inclusion of paragraph 22(d), we appreciate IASB's objective of seeking to assist financial statements users to reconcile the information between the segment report and other parts of the annual reporting package. However, we have some concerns that such a requirement may prove to be onerous on both the preparers and the auditors.

As stated in the proposed paragraph 19B, the annual reporting package is a set of documents that is published at approximately the same time as the entity's financial statements, communicates the entity's annual results to the users of its financial statements, and is publicly available. In addition, the annual reporting package may include a management commentary, press releases, preliminary announcements, investor presentations and information for regulatory filing.

The above indicates the wide scope of an annual reporting package. It may be onerous on preparers and auditors to ensure completeness of all such reports and statements as well as the completeness of the explanation provided on the differences between the information between the segment report and other parts of the annual reporting package. Furthermore, such reports and statements are outside of the scope of IFRSs (IAS 1, paragraph 14) and may not be subject to the same rigorous process of preparation and review as that of the financial statements. This may prove to be a challenge to auditors who have to review such information to ensure compliance with the proposed requirements.

In addition, an annual reporting package includes documents that are "published at approximately the same time as the entity's financial statements". This would include reports and statements that are published between the date of authorisation of the financial statements and the date of publication of the financial statements. In such instances, there is no way for the entity to be able to provide explanations inside the audited financial statements for differences noted between the segment report in these documents and that in financial statements as the financial statements had already been authorised for issue.

We would like to urge the Board to reconsider the scope of the annual reporting package in view of the above.

<u>Proposed paragraph 12A provides further examples of similar economic characteristics to the aggregation criteria in IFRS 8</u>

We agree with the provision of additional examples of similar economic characteristics to the aggregation criteria in IFRS 8 as these are useful is aiding preparers to aggregate the operating segments appropriately.

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 proposed amendment on the premise that the disclosure of the additional segment information helps the entity to meet the core principle in IFRS 8.

Question 4

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

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

We agree with the proposed amendment as it would facilitate management's communication to the users of the financial statements, especially the effect of material reconciling items on individual operating segments.

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 understand that the intention of the proposed amendment is to provide users of financial statements with up-to-date information following a change in the composition that results in a change in an entity's reportable segments, thereby increasing the comparability of interim reporting.

Paragraph 29 of IFRS 8 currently requires the restatement of "corresponding information for earlier periods, including interim periods" when there is a change in the composition of an entity's reportable segments. The effect of this requirement is that if an entity were to change the composition of its reportable segments on 1 July, its interim financial report for the period ending 30 September (i.e. third quarter) would be the first to be prepared on the basis of the new composition of reportable segments. The entity would also restate segment information for the period ending 30 September of the previous financial year. However, the proposed paragraph 45A of IAS 34 now requires the restatement of segment information for <u>all interim periods both of the current financial year and of prior financial years</u>. This, in our view, is onerous for the preparers even though IASB had stated in the proposed paragraph 45A that entities may be exempted from doing the restatement if the information is not available and the cost to develop it would be excessive.

The ED proposes retrospective application of the proposed amendments to IFRS 8 and IAS 34, with earlier application permitted. If earlier application is elected for either of the proposed amendments, the entity must apply the proposed amendments to the other standard at the same time.

We have some concerns on the interplay between (i) the retrospective application of the proposed amendments to IFRS 8 and (ii) the requirements of paragraph 80(b) of IAS 36.

Paragraph 80(b) of IAS 36 states that each unit or group of units to which goodwill is allocated shall not be larger than an operating segment as defined by paragraph 5 of IFRS 8 before aggregation. Accordingly, changes to the composition of operating segments may affect the level at which goodwill is tested for impairment under IAS 36. With the retrospective application of amendments to IFRS 8, this would mean a re-performance of the impairment tests of goodwill done in previous financial years and preparers are likely to use the benefit of hindsight in the re-performance of the impairment tests. As such, the information obtained may not be beneficial to the users of the financial statements.

Should you require any further clarification, please feel free to contact Ms Felicia Tay, Manager, Corporate Reporting & Ethics (CoRE), from ISCA via email at felicia.tay@isca.org.sg.

Yours faithfully,

Ju May, Lim
Deputy Director
Corporate Reporting & Ethics (CoRE)