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3 July 2017

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

Dear Mr Hoogervorst

**Exposure draft 2017/2 – Improvements to IFRS 8 *Operating Segments***

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the IASB's') exposure draft *Improvements to IFRS 8 Operating Segments* ('the exposure draft').

As stated in our response to the Request for Information on the Post-implementation Review of IFRS 8 in 2013, we welcome the Board's initiative in subjecting IFRSs to such reviews as we believe this can be an effective means of identifying and addressing issues that only become apparent once a Standard has been applied in practice.

In general, we agree with the clarifications to IFRS 8's existing guidance. We do, however, have concerns of the practicability of the proposed requirement to disclose and justify differences in reportable segments between the financial statements and other parts of an annual reporting package and of the extended list of measures considered to demonstrate 'similar economic characteristics'. We also recommend that a transitional provision be added to allow any change to the impairment testing of goodwill resulting from a change to the identified chief operating decision maker (and, therefore, to the operating segments identified) to be applied prospectively.

More generally, we note that developments in technology enabling a chief operating decision maker to access information tailored to their specifications as and when they need it are not addressed by the exposure draft. We are concerned that as technology develops and entities move away from a 'traditional' internal reporting system a more fundamental review of the operating segment concept may be necessary.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

**Veronica Poole**
Global IFRS Leader

**Appendix**

**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?*

In general, we note that valid differences in segment information provided in different contexts is likely to arise either for entities that use a matrix structure for internal reporting or in the increasingly common circumstance noted in our response to the Request for Information on the Post-implementation Review in 2013 whereby a chief operating decision maker can access information tailored to their specifications as and when they need it. We are concerned that as technology develops and entities move away from a 'traditional' internal reporting system a more fundamental review of the operating segment concept may be necessary.

More specifically, we agree with the proposed additions of paragraphs 7A and 7B on the assessment of a group as the chief operating decision maker for the reasons given in the Basis for Conclusions on the exposure draft but are concerned that, without further clarification, the inclusion of a reference to 'operating decisions' in the definition of a 'chief operating decision maker' could cause issues in practice as 'operating decisions' can be made at multiple levels within an organisation (for example, by an executive responsible for a particular division or jurisdiction). As such, a focus on 'operating decisions' could lead to the inappropriate identification of chief operating decision makers at too low a level within the organisation.

If this reference is to be retained, we recommend that it be made clear that operating decisions made by a chief operating decision maker (whether that is an individual or a group) should be considered strategic to the entity as a whole, taking into account the possibly competing priorities of different operating segments, as this is consistent with the term 'chief' operating decision maker and with the existing reference to resource allocation decisions (which, by their nature, are made by a person or group considering multiple segments).

In addition, we are concerned that due to the interaction between IFRS 8 and paragraph 80 of IAS 36 *Impairment of Assets*, retrospective application (per proposed paragraph 58) of any change in the identification of the chief operating decision maker that results in an increased number of operating segments would also require (apparently retrospective) changes in the level at which goodwill is tested for impairment. This is unlikely to be practicable without the application of hindsight and we do not believe that retrospective changes to (or introduction of) impairment charges will be of benefit to users of financial statements. As such, we recommend that a transitional provision be added to allow for any change to impairment testing arising from the proposed amendment to be applied prospectively.

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**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?*

We agree that consistency between the financial statements and other elements of an entity's reporting (or, when differences are valid, an explanation of those differences) is a desirable objective but are concerned that the requirements of proposed paragraph 22(d) may not be practicable or auditable, particularly as they relate to documents outside the main annual report (such as press releases and investor presentations) which may not yet exist at the date of approval of the financial statements and may not be subject to the same governance processes or regulatory and statutory requirements as the financial statements. In addition, the concept of an 'annual reporting package' is not one that currently exists elsewhere in IFRSs but could potentially be relevant to other aspects of, for example, the Board's Principles of Disclosure project. As such, we recommend that it be considered more broadly before being applied in specific standards.

We are also concerned by the proposed addition of paragraph 12A listing a number of measures that might exhibit similar long-term performance in segments that have 'similar economic characteristics' and may, therefore, be appropriate for aggregation. In many cases, two segments will show similar long-term trends based on some measures but not others, the simple list included in proposed paragraph 12A provides no guidance on how to weight those measures in determining whether segments have 'similar economic characteristics' in such circumstances. We believe that, rather than applying 'bright line' indicators, this judgement should be made by an entity's management based on its understanding of the most relevant measures that, consistent with the core principle in paragraph 1 of IFRS 8, will enable users to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environment(s) in which it operates.

**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 do not believe that the proposed addition of paragraph 20A is necessary as there is currently no prohibition in IFRS 8 (or in IFRSs more generally) from providing additional disclosures should they be considered useful to users of financial statements. Rather than adding this paragraph to IFRS 8 in isolation, we recommend that the use of disclosures beyond those specifically required by IFRSs be considered more broadly as part of the Board's project on the Principles of Disclosure.

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**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 for the reasons given in the Basis for Conclusions on the exposure draft. Were the Board to determine that the introduction of paragraph 20A is necessary, we believe that clarification would be needed on whether a requirement for reconciliation would extend to additional disclosures provided in accordance with proposed paragraph 20A.

**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 with the proposed amendments for the reasons given in the Basis for Conclusions on the exposure draft, but recommend that additional clarity be provided in the following areas:

- The reference to 'prior financial years' in proposed paragraph 45A of IAS 34 is currently ambiguous. We believe that it should refer to the periods for which a statement of profit or loss and other comprehensive income will be presented in the entity's next annual financial statements.
- It is unclear what effect (if any) the proposed amendments to IAS 34 are intended to have if an entity's reportable segments are changed in the second half (or fourth quarter) of a financial year and no interim financial statements are prepared for the period as in that circumstance the change occurs in a period to which IAS 34 is never directly applied. As such, it is unclear whether proposed paragraph 45A never applies to that change in reportable segments or applies in the first interim period of the next financial year (in which case, this would seem to duplicate the existing requirements of paragraph 29 of IFRS 8 applied to annual financial statements).