

IFRS in Focus

IASB proposes improvements to IFRS 8

Contents

Why are amendments being proposed?

What are the proposed amendments?

Effective date, transition requirements and comment period

This edition of IFRS in Focus outlines the proposed amendments to IFRS 8 *Operating Segments* and IAS 34 *Interim Financial Reporting* set out in the recent Exposure Draft (ED) 2017/2 issued by the International Accounting Standards Board (IASB).

The Bottom Line

The IASB proposes to amend IFRS 8 by:

- providing additional guidance on identifying the chief operating decision maker ('CODM');
- requiring an entity to disclose how, and why, the reportable segments identified in the financial statements differ from those reported in other parts of the annual reporting package;
- adding examples of when operating segments are considered to have similar economic characteristics when applying the aggregation criteria; and
- adding new disclosure requirements.

The proposals include amendments to IAS 34 to require that *all* interim periods of both the current and prior financial years be restated and presented in the first interim financial report following a change in the composition of reportable segments.

Comments on the proposals are due by 31 July 2017.

Why are amendments being proposed?

The IASB completed the post-implementation review of IFRS 8 in July 2013, from which it concluded that IFRS 8 was functioning as intended but that it needed improvements in some areas. The proposed amendments aim to make these improvements.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

What are the proposed amendments?

IFRS 8 *Operating Segments*

The IASB proposes to amend IFRS 8 as follows:

- (a) emphasising that the CODM is a function that makes operating decisions and decisions about allocating resources to, and assessing the performance of, the operating segments of an entity;
- (b) explaining that whether the CODM is an individual or a group will depend on how the entity is managed, and that corporate governance requirements may influence this assessment;
- (c) explaining the role of non-executive members when identifying the CODM;

Observation

The proposed amendments clarify that a group of people identified as the CODM could include non-executive members. For example, if the board of directors is responsible for making the operating and resource allocation decisions, then the board of directors as a whole, including the non-executive directors, would be identified as the CODM. In other words, there is no need to exclude specifically the non-executive directors from the CODM designation. This is because the CODM is the forum in which decisions are made even if some members of that group do not participate in making such decisions.

- (d) requiring an entity to disclose the title and description of the role of the individual or the group that is identified as the CODM;
- (e) requiring an entity to explain in the notes to the financial statements how, and why, reportable segments identified in the financial statements differ from those identified in other parts of the annual reporting package;

Observations

One of the objectives of using the management approach to report segment information in the financial statements was to provide more consistency between the financial statements and management commentary. Despite this, the IASB found examples in practice where the segments reported in the financial statements differ from those reported in the management commentary or investor presentations. As the IASB is not in a position to mandate consistency between what is reported in the financial statements and what is reported outside their scope, the IASB proposes to require disclosure of how, and why, the reportable segments identified in the financial statements differ from those identified elsewhere in the entity's annual reporting package. They believe that this will reinforce the management approach required by IFRS 8 and encourage consistency between different documents.

The proposal introduces the term "annual reporting package", which is defined broadly to include "press releases, preliminary announcements, investor presentations" that are published "at approximately the same time as the entity's annual financial statements." The proposal is likely to create some practical challenges in aligning material, particularly once the financial statements have been published.

- (f) clarifying that operating segments should be viewed as having similar economic characteristics (for aggregation purposes) if they exhibit similar long-term financial performance across a range of measures;
- (g) clarifying that an entity *may* disclose segment information in addition to that reviewed by, or regularly provided to, the CODM if that helps the entity to meet the core principle of IFRS 8; and
- (h) requiring a fuller explanation of the reconciling items from segment information to the information for the entity as a whole so as to enable users of the financial statements to understand the nature of the reconciling items.

IAS 34 Interim Financial Reporting

The IASB also proposes to amend IAS 34 to require that all interim periods of both the current and prior financial years be restated and presented in the first interim financial report following a change in composition of reportable segments, unless the information is not available and the cost to develop it would be excessive.

Observations

For example, suppose Entity A reports quarterly and has a December year end. If the entity changes its reportable segments on 1 April 2019, the quarterly report ending 30 June 2019 would be the first to be prepared using the new composition. That interim report would be required to include restated segment information for each of the four quarters of the 2018 financial year, in addition to information for the first quarter of 2019 based on the new composition of reportable segments.

This proposed requirement to present the restated amounts for all current and prior year interim periods is to avoid users having to wait for a full year's interim reporting cycle to be completed before receiving restated segment information for each comparative interim period.

Effective date, transition requirements and comment period

The ED does not specify an effective date for the proposed amendments, which the IASB will determine after considering the comments it receives on the ED.

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.

Comments on the ED are due by 31 July 2017.

Key contacts

Global IFRS Leader

Veronica Poole
ifrsglobalofficeuk@deloitte.co.uk

IFRS centres of excellence

Americas

Canada	Karen Higgins	ifrs@deloitte.ca
LATCO	Claudio Giaimo	ifrs-LATCO@deloitte.com
United States	Robert Uhl	iasplus-us@deloitte.com

Asia-Pacific

Australia	Anna Crawford	ifrs@deloitte.com.au
China	Stephen Taylor	ifrs@deloitte.com.cn
Japan	Shinya Iwasaki	ifrs@tohmatu.co.jp
Singapore	James Xu	ifrs-sg@deloitte.com

Europe-Africa

Belgium	Thomas Carlier	ifrs-belgium@deloitte.com
Denmark	Jan Peter Larsen	ifrs@deloitte.dk
France	Laurence Rivat	ifrs@deloitte.fr
Germany	Jens Berger	ifrs@deloitte.de
Italy	Massimiliano Semprini	ifrs-it@deloitte.it
Luxembourg	Eddy Termaten	ifrs@deloitte.lu
Netherlands	Ralph Ter Hoeven	ifrs@deloitte.nl
Russia	Michael Raikhman	ifrs@deloitte.ru
South Africa	Nita Ranchod	ifrs@deloitte.co.za
Spain	Cleber Custodio	ifrs@deloitte.es
United Kingdom	Elizabeth Chrispin	deloitteifrs@deloitte.co.uk

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 225,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that might affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2017. For information, contact Deloitte Touche Tohmatsu Limited.

Designed and produced by The Creative Studio at Deloitte, London. J11354