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Mr Hans Hoogervorst
International Accounting Standards Board
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Our ref MV/288

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Dear Mr Hoogervorst

Comment Letter on Exposure Draft ED/2017/2 *Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)*

We appreciate the opportunity to comment on the International Accounting Standards Board's (the Board) Exposure Draft *Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)*. We have consulted with, and this letter represents the views of, the KPMG network.

We support the Board's efforts to address issues identified as part of the Post-implementation Review of IFRS 8 and the overall objective of improving the quality of disclosure of operating segments information. However, we are concerned about some of the proposed amendments - in particular, the proposed requirement in paragraph 22(d) to disclose in the financial statements an explanation of why reportable segments identified in the financial statements differ from segments identified in other parts of the entity's annual reporting package. We do not believe that the financial statements are the place to explain inconsistencies between properly prepared IFRS information and non-IFRS information presented elsewhere.

The Appendix to this letter contains our detailed responses to the questions on the proposals.

Please contact Mark Vaessen +44 (0)20 7694 8871 or David Littleford at +44 (0)20 7694 8083 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

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Appendix

This appendix contains our detailed responses to the proposals.

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?

The identification of the chief operating decision maker (CODM) is fundamental to applying IFRS 8 and additional guidance in this area may be useful. However, we believe that the proposed amendments may not be effective in assisting preparers in identification of the CODM compared to extant IFRS 8.

Further, the proposed changes in paragraphs 7A-7B may lead to identification of the CODM at a higher level of the entity's organisational structure (e.g. board of directors, management committee) potentially leading to less disaggregation rather than more disaggregation of operating segments. In our experience, information provided to a more senior group of recipients (including non-executive members) tends to be less disaggregated. Therefore we recommend that the Board evaluates if these proposed amendments adequately respond to users' needs and any regulatory concerns about the aggregation of operating segments.

Notwithstanding the point above that the proposed amendments could potentially result in less disaggregation of operating segments, we note that there could be a potential

measurement impact in cases where there would be more disaggregation of operating segments. This is caused by the interaction of IFRS 8 with IAS 36[1] requirements on allocation of goodwill for impairment testing purposes - i.e. each unit or group of units to which goodwill is allocated cannot be larger than an operating segment before aggregation. However, we note that paragraph BC38 suggests that the proposed amendments to be applied retrospectively solely affect disclosure.

We are concerned that an increased number of operating segments may trigger changes in the level at which goodwill is tested for impairment, and that reallocation of goodwill to a lower level could lead to additional impairment charges.

In such a scenario, the proposal in paragraph 36D to apply the IFRS 8 amendments retrospectively may result in reallocating goodwill on a retrospective basis and recognising an impairment retrospectively. We do not believe that reallocation of goodwill on a retrospective basis would be practicable without the use of hindsight. We also note that under current paragraph 87 of IAS 36, a reallocation of goodwill as a result of a reorganisation of the reporting structure including composition of cash generating units is recognised at the date of reorganisation, not on a retrospective basis.

We recommend that the Board considers the impacts of the interaction of the requirements of IAS 36 with IFRS 8 and addresses them specifically. We suggest that the Board amends the proposed transitional provisions.

We also believe it would be helpful for the Board to consider and describe, for example in the Basis for Conclusions, the difference between the definition of Key Management Personnel in paragraph 9 of IAS 24 and the CODM in IFRS 8.

We agree with the requirement to disclose the title (if one exists) and description of the individual or group identified as the CODM.

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

[1] Paragraph 80 of IAS 36 *Impairment of Assets*

(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?

Inconsistency between reportable segments in the financial statements and other parts of the annual reporting package (paragraphs 19B, 22(d))

We sympathise with concerns raised by some users and regulators about the inconsistency of segment information in the financial statements with information presented elsewhere and support promoting greater consistency between different pieces of corporate communication. However, we believe that the explanation of any apparent inconsistency between reportable segments identified in the financial statements with information in other parts of the annual reporting package should not be a factor in determining whether the financial statements themselves are in compliance with IFRS (or not). As such, we do not believe that such disclosure belongs in the financial statements.

We consider the expectation for consistency between segment reporting and information outside the financial statements to be an enforcement issue over the relevant document (such as the management discussion and analysis or analysts' briefing, etc.) rather than a financial statement disclosure matter.

We also note that some inconsistencies might even be warranted, for example, when investors or other users request selected financial information by brand or product line, notwithstanding that this is not the way the CODM receives information.

We are also concerned about the precedent that a requirement to explain why IFRS information is in accordance with IFRS might set. In particular, will preparers be required to explain in the financial statements any other apparent inconsistencies with disclosure in other parts of the annual report / other documents, such as investor presentations, press announcements, etc? For example, will preparers be required to explain the absence of disclosure of remote contingent liabilities under IAS 37[2] that might be discussed in the narrative sections or to explain a lack of capital contributions where the narrative section includes the discussion on the strategy of expansions?

We recommend that the Board reconsiders this proposed requirement as we do not believe the explanation of inconsistencies belongs in the financial statements. We instead recommend that the Board discusses, as part of the Basis for Conclusions of

[2] IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

the final amendments, why such explanations belong outside the financial statements (e.g. in management discussion and analysis, investor presentations). We note that the Board is contemplating the interaction of information provided inside and outside the financial statements in various other areas, including the Principles of Disclosure discussion paper and, potentially, in a future project to update the Management Commentary Practice Statement. We recommend that the Board considers the consistency issues between various corporate reporting information sources more fundamentally in the context of those other projects.

If however, the proposed requirement is retained, we recommend to be consistent with the way cross-referencing is addressed in other IFRSs (e.g. paragraph B6 of IFRS 7 and paragraph 16A of IAS 34) and refer only to information/documents *that is available to users of the financial statements on the same terms as the financial statements and at the same time*, since using "annual reporting package" may have unintended consequences given the various forms and composition of such packages across different jurisdictions and given the auditor's responsibilities in accordance with International Standards on Auditing (specifically, see ISA 720[3]) which limits the auditor's responsibilities to information included in an entity's annual report only.

Aggregation criteria (paragraph 12A)

We agree with 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. However, it is not sufficiently clear the *extent* to which economic characteristics need to be similar in order to aggregate operating segments. We recommend that the Board provides additional guidance around similar economic characteristics.

We believe that there is a lack of a conceptual basis according to which economic factors should be considered when determining similar economic characteristics (the proposed amendment includes only examples). Otherwise management may be incentivised to identify those that are similar, rather than those that are the most appropriate economic factors to the assessment. We recommend that the Board provides a conceptual basis for the economic factors to be considered, e.g. the primary entity-specific factors that the CODM uses in reviewing the performance of, and allocating resources to, individual segments.

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

[3] Paragraphs 12, 14 and 15 of ISA 720 *The Auditor's Responsibilities Relating to Other Information*

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 proposed amendment, however we recommend that the Board clarifies its intention whether an entity can disclose additional information in respect of reportable segments identified in accordance with IFRS 8, or whether further, or alternative, disaggregation is allowed; or both.

Paragraphs BC27-BC31 mainly refer to additional line items required by users of financial statements. It is unclear whether the additional information that may be disclosed, as stated in paragraph 20A, refers to information such as additional line items (e.g. segment EBIT or EBITDA) or more broadly to any additional information (e.g. the entity's post-employment benefit plans on a non-IAS 19 compliant basis). While the former may contribute to meeting the core principle in the Standard, the latter may not.

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 to more fully explain the nature of reconciling items as it may enable the users of financial statements to better understand the effect of these items on individual reportable segments. We also recommend that the Board clarifies whether the requirement for reconciliation would extend to additional disclosures provided pursuant to the proposed paragraph 20A (see question above).

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 proposed requirement to restate all of the prior year interims in the first interim period following a change in the composition of the reportable segments goes above and beyond the current requirements of IAS 8[4] and IAS 34[5] with respect to a change in an accounting policy. As we do not believe there is a conceptual difference between changing the composition of reportable segments and changing an accounting policy, we find it unclear why there should be a difference in accounting for, and reporting of, the two scenarios. We therefore recommend that the Board removes the proposed requirement and instead aligns the requirements with IAS 34 / IAS 8 retrospective application approach.

[4] IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
[5] Paragraph 43 of IAS 34 *Interim Financial Reporting*