



The Institute of Public Accountants



**IPA** INSTITUTE OF PUBLIC  
ACCOUNTANTS  
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**Submission to IASB:  
ED 2017-2  
Improvement to IFRS 8,  
Operating Segments**

07 July 2017  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sir

**Exposure Draft 2017/2 Improvements to IFRS 8 Operating Segments**

The Institute of Public Accountants (IPA), welcomes the opportunity to comment on Exposure Draft ED 2017/2 *Improvements to IFRS 8 Operating Segments – Proposed amendments to IFRS 9 and IAS 34*.

While the IPA recognises the need to revise IFRS 8 *Operating Segments*, the IPA is of the view the proposed amendments ignore the reality that the current iteration of IFRS 8 is fundamentally broken. IFRS 8 as currently constructed (including the proposed amendments) allows the circumvention of the core principle of the standard. We also consider that the core principle should contain a specific reference to ‘risk’.

The Post-implementation Review (PIR) has identified the inconsistency of segment information provided in accordance with IFRS 8 and other information provided by entities in annual reports, profit announcements and other similar information. This feedback is consistent with the IPA’s own observations.

The IPA believes this inconsistency arises because the basis used to identify segments is open to being “gamed” by management. The IPA believes the inconsistency in reporting segment information between the audited financial statements and segment information provided elsewhere cannot be solely attributed to regulatory requirements, but primarily driven by the demands of institutional investors and analysts for meaningful segment information which has not been provided by the audited financial statements.

The IPA believes the method of identification of operating segments based on the information used by the Chief Operating Decision Maker (CODM) is subject to management manipulation. Preparers are able to select the segment information by “judicious” selection of CODM and the selection of a particular report or level of reporting used by the CODM.

This is disingenuous as information measuring performance of business units within an organisation is often available with many levels of granularity. Information provide to CODM is usually capable of being “drilled-down” and it is inconceivable that decisions are made based on the summary page of a weekly or monthly reporting package. This practice is inconsistent with the core principle of IFRS 8.

This is also partially a result of regulatory and audit failure to ensure compliance with the core principle. The ultimate issue is IFRS 8 effectively relies on management to determine the needs of the user in relation to segment information.

The IPA believes IFRS 8 needs to identify segments based on user needs. The additional segment information provided outside the audited financial statement can be partially attributable to deficiencies in IFRS 8. A requirement to explain the difference between segment information reported elsewhere does not address this issue. Rather, IFRS 8 needs to set out a basis for the identification of segments based on user needs. The IPA believes user needs would require information on a segment basis where there were material differences in risk or significantly different business models within the reporting entity. The segment disclosures should also identify and explain the risk(s) or business models used in determining each reportable segment.

We also consider that an extension of scope beyond listed entities needs to be pursued.

Our detailed comments and responses to the questions in the Exposure Draft are set out in Appendix A.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca ([stephenlagreca@aol.com](mailto:stephenlagreca@aol.com)) or Mr Colin Parker ([colin@gaap.com.au](mailto:colin@gaap.com.au)) (a former member of the AASB), GAAP Consulting.

Yours sincerely



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CC Ms Kris Peach, Australian Accounting Standards Board

### About the IPA Group

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 80 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors on issues affecting our members, the profession and the public interest. The IPA merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

## APPENDIX A

### Question 1

*The Board proposes to amend to amend the description of the chief operating decision maker with amendments in paragraph 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 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 includes members who do not participate in all decisions made by the group (see paragraphs BC4-BC12 of the Basis of Conclusions on the proposed amendments to IFRS 8).*

*The Board proposes in paragraph 22(c) of IFRS 8 that an entity shall disclose the title and description of the individual or group identified as chief operating decision maker (see paragraphs BC25-BC26 of the Basis of 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?*

### IPA response

While the IPA generally supports additional guidance, the proposed guidance in our opinion lacks sufficient depth and could be construed as nothing more than common sense. If the Post-implementation Review (PIR) has indicated the identification of the chief operating decision maker (CODM) as an issue we would have expected more comprehensive guidance on the issue rather than the proposed guidance.

The IPA is sceptical as to the value of the proposed disclosure of the CODM. We are concerned it will be a cause of confusion to readers who will in all likelihood expect the CEO to be the CODM and other disclosures will not be understood, without further explanation.

### Question 2

*In respect to 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 in other parts of the entity's annual reporting package (see paragraphs BC13-BC19 of the Basis of Conclusions on the proposed amendments to IFRS 8); and*
- (b) Adding further examples of 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 of 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?*

#### **IPA response**

As noted in our covering letter, the IPA is of the view that in its current form IFRS 8 does not meet the requirements of users of general purpose financial reports. The segment analysis provided outside the financial report supports the contention investors require more information than provided in the audited financial statements.

The IASBs proposal is an acknowledgment that more relevant information exists outside the audited financials and does not address the root cause of the problem – IFRS 8 incorporates an inadequate basis of determining segment information. In the IPA's opinion the proposed addition of paragraph 22(d) represents a capitulation to the problem and not a solution; and therefore the IPA does not support the addition of paragraph 22(d).

However, the IPA does support the addition of further guidance on the application of aggregation criteria as we agree the level of existing guidance could be enhanced.

#### **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 principles in paragraphs 1 and 20 of IFRS 8 (see paragraph BC27-BC31) of the Basis of 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?*

#### **IPA response**

The IPA supports the amendment to disclose further segment information that allows the entity to meet the core principles.

#### **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 the reconciling items (see paragraphs BC32-BC37 of the Basis of 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?*

#### **IPA response**

The IPA supports the proposed changes to provide explanations to reconciling items in the segment information as this would provide useful information for users.

### 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 the 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 of Conclusions on the proposed amendments to IAS 34).*

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

### IPA response

The IPA supports the proposed amendments to IAS 34 as the restated comparative information is critical to provide context for the current periods' segment information.