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Submitted electronically via www.ifrs.org

International Accounting Standards Board
30 Cannon Street, 1st Floor
London EC4M 6XH
United Kingdom

Dear Sirs:

Re: Improvements to IFRS 8 Operating Segments (ED/2017/2)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Improvements to IFRS 8 Operating Segments (Proposed Amendments to IFRS 8 and IAS 34)" issued in March 2017.

Our process

As part of the due process for these proposals, we consulted with our User Advisory Council, and our IFRS Discussion Group, as well as the Canadian Audit and Assurance Board's (AASB) Securities Regulatory Group. We took into account the results of the discussions we had when developing this comment letter.

Our views

We commend the IASB for being responsive to issues that arose during the post-implementation review of IFRS 8 *Operating Segments* and continue to support the IASB in its efforts to identify and address standards implementation issues.

We think that financial statement users around the world are seeking a common language when reading financial statements. Investors rely heavily on segment disclosure and we think that common financial reporting, including information about segments, will help to facilitate efficient capital markets, increase investor confidence and potentially reduce the cost of capital. From that perspective, we encourage the IASB and the FASB to act when needed and seek high-quality solutions that will result in more globally comparable financial reporting outcomes.

We understand that challenges have been experienced in practice in applying some of the requirements of IFRS 8. However, we have concerns with several of the IASB's proposed amendments to address these issues, specifically whether they will result in improved disclosures in practice.

Need for disaggregated information

Users in Canada have indicated that the segmented information disclosed at the level of reporting segments is often not detailed enough to allow them to understand the reporting entity's business activities. Overall, we think that the proposed amendments will not result in the disclosure of more disaggregated segments. Moreover, we are concerned that the proposal to amend the description of the chief operating decision maker may lead to higher levels of aggregation and less useful disclosure.

Consider unintended effects

We are concerned that some of the proposed amendments are to address fact patterns and application issues seen only in some jurisdictions, for example due to governance requirements. Addressing these issues in the standard itself may be confusing to stakeholders in jurisdictions where these fact patterns are not present and may result in more aggregated disclosures of operating segments. Instead, we recommend using non-authoritative guidance to raise awareness of such issues and to encourage the alignment of results reported in the management commentary and other reports with the financial statements.

Clarify the function of chief operating decision maker

We agree that the function of the chief operating decision maker should primarily be to assess operating results and making operating decisions, and generally support amendments to clarify that point. However, the allocation of an entity's resources is often a strategic function that may require higher levels of review and approval, such as by a board of directors. In some jurisdictions, including Canada, the function of the board of directors is to govern, rather than manage. Therefore, we recommend that the amendments clarify that the primary function of the chief operating decision maker is to regularly make operating decisions and assess operating results.

Require disclosures to meet the core principle of IFRS 8

Finally, we are concerned that some of the proposed amendments may deviate from the core principle of IFRS 8 because they imply that segments presented outside the financial statements, for purposes other than to meet the core principle of IFRS 8, also meet the definition of reportable segments and are within the domain of the IASB. We think that this raises a question as to which of these segmentations actually enables users to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environments in which it operates.

We recommend that the proposed amendments clarify that an entity is required to disclose additional information about its segments if doing so is necessary to meet the core principle of the standard, and that it should consider the appropriate level of aggregation or disaggregation when making this assessment.

Our responses to your questions

The Appendix to this letter responds to the questions posed in the Exposure Draft and expands on the points raised above.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Rebecca Villmann, Director, Accounting Standards (+1 416 204-3464 or email rvillmann@acsbcanada.ca) or Michelle Thomas, Principal, Accounting Standards (+1 416 204-2979 or email mthomas@acsbcanada.ca).

Yours truly,

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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS© Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

APPENDIX

Question 1

The IASB 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 IASB 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?

1. We generally agree that there are issues in practice in identifying the chief operating decision maker. We support the proposal to amend the description of the chief operating decision maker in paragraph 7 to clarify that the function regularly engages in operating decisions. We think that clarifying that the function is primarily an operational one is consistent with the underlying premise of the standard for entities to identify and report segments using the management perspective.

2. However, we are concerned that the proposal to add "makes operating decisions and decisions about allocating resources…" does not clarify that the function is primarily operational rather than strategic. We think that the allocation of resources to an entity's segments may be more of a strategic function than managing an entity's

operations, and may be performed as a different function, by different individuals or committees.

3. We recommend amending paragraph 7 to clarify that the primary function of the chief operating decision maker is to make operating decisions about and assess the performance of an entity's segments. This might include decisions about the allocation of resources, but not necessarily.

4. We disagree with the amendments proposed in (b) and (c) above. We think that these amendments are to address fact patterns and application issues seen in other jurisdictions that have different governance and regulatory environments. Canadian stakeholders have said that it is not common in this jurisdiction for a board of directors to be the chief operating decision maker, because in Canada the board of directors is seen as a governance function. The chief operating decision maker is more often the CEO or a group of executive officers. We are concerned that, when applied in Canada, these amendments may result in identifying the chief operating decision maker at a higher level, which could result in reportable segments being identified at a higher level than under current practices. Therefore, we think that these application issues should be addressed by providing explanatory guidance, rather than by amending a converged standard.

5. We agree with the proposed amendment to require an entity to disclose the title and description of the role of the individual or the group identified as the chief operating decision maker.

Question 2

In respect of identifying reportable segments, the IASB 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?

6. We think that the issue of identifying segments in financial statements that are different from segments identified in other parts of the entity's annual reporting package is not prevalent in Canada. Stakeholders we spoke with noted that other parts of an entity's reporting package tend to provide more detailed information at a relatively lower level about the company's operations and segments compared to what is included in the financial statements. The reportable segments provided are generally the same.

7. We think that the issue of identifying segments in management commentary and other reported information that differ from an entity's reportable segments in its financial statements is an application issue because it appears to be more prevalent in some jurisdictions than in others.

8. We agree with the IASB's observation in paragraph BC19 of the Basis for Conclusions that IFRS Standards set requirements for financial statements and the Board is not in a position to mandate consistency between the financial statements and other reported information. As a result, we think that the definition of reportable segments exists only within the GAAP construct, and cannot be applied in management commentary

and other reported information where there is no globally accepted framework for this definition. We disagree with the proposed amendment because it suggests that the definition of reportable segments should be applied outside the financial statements, and that it is acceptable to present segments differently across a variety of reports as long as these differences are explained. In our view, such explanations question whether the segments presented in the financial statements provide users with the most meaningful information.

9. We also disagree with this amendment because the core principle of IFRS 8 should result in the disclosure of segments in the financial statements that "enables users to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates" when properly applied (paragraph 1). We think that the segments disclosed in an entity's financial statements should meet the core principle of IFRS 8, and that the financial statements are not the appropriate place to provide explanations about why different information is provided elsewhere, for purposes other than to meet the core principles of IFRS Standards.

10. Finally, we are concerned that the proposed amendment will create assurance issues by extending the scope of audit and assurance responsibility to non-GAAP information presented in a variety of reports distributed using a variety of means. We think that it would become increasingly difficult to provide assurance that such information is fairly presented.

11. Rather than proceeding with the proposed amendment, we think that the IASB should consider whether working with securities regulators and raising awareness in jurisdictions where this issue is prevalent will reinforce the management approach of IFRS 8 in the financial statements.

12. In Canada, the requirements for continuous disclosure filings and other reports beyond the financial statements that would form part of an entity's annual reporting package are determined, and their application enforced, by securities regulators. To support other jurisdictions with different regulatory environments, the Board could

consider providing such guidance in its IFRS Practice Statement on Management Commentary or other similar non-authoritative guidance.

13. In addition, we think that the approach of citing or explaining differences with non-IFRS information in financial statements warrants full and careful deliberation through the Board's Disclosure Initiative. An amendment to require such a disclosure in a specific IFRS Standard should only be considered after that.

14. We do not have any specific concerns with regards to Question 2 (b), the proposed amendment to include further examples to the aggregation criteria in paragraph 12A of IFRS 8. However, we think that when applied in Canada, this amendment will not result in a change in the identification of an entity's reportable segments.

15. Users have indicated that they think that the quantitative thresholds in IFRS 8 result in the reporting of segments that are too broad. We recommend an amendment in paragraph 13 of IFRS 8 to reinforce the management approach to identifying reportable segments:

> "Operating segments that do not meet any of the quantitative thresholds **~~may be~~** **<u>are</u>** considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements."

Question 3

The IASB 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?

16. We do not agree with the proposed amendment that an entity may disclose additional segment information if it helps the entity to meet the core principle of IFRS 8 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 environments in which it operates." (paragraph 1)

17. Members of the AcSB's User Advisory Council said that the information disclosed by companies in the segment note is often not detailed enough to allow them to fully understand the business and predict future earnings and cash flows. They indicated that the quantitative thresholds set out in IFRS 8 often result in the reporting of segments that are too broad to be useful for modeling. We think that the proposed amendment will not resolve these concerns because providing the additional information is an option.

18. We think that entities should be required to disclose any information needed to meet the core principle of the standard. Such a requirement would be consistent with similar requirements in other IFRS Standards, such as IFRS 3 Business Combinations and IFRS 13 Fair Value Measurement.

19. We recommend that the following requirement be added to IFRS 8:

    "If the disclosures required by this standard, together with disclosures required by other IFRS Standards, do not meet the core principle in paragraph 1, an entity shall disclose the additional information necessary to meet that objective. To meet this objective, an entity shall consider the level of detail necessary to satisfy the disclosure requirements, including how much aggregation or disaggregation to undertake." (based on approach in IFRS 13)

Question 4

The IASB 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?

20. We support this clarification as the nature of these reconciling items is often unclear in current practice, and the extra detail will be helpful to users without creating a burden for preparers.

Question 5

The IASB 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?

21. We support this amendment because we think that a lack of consistency in the reporting of segments significantly limits the benefit of segment information, making it difficult to understand the entity's performance over time, in which case the core principle of the standard is not met. Making this information available to users at an earlier date will facilitate their understanding of the new segments. However, we encourage the IASB to seek input from assurance providers to better understand the impact of this change on audit and assurance standards.