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

Email: commentletters@ifrs.org

16 November 2012

Dear Mr. Hoogervorst,

Request for Information Post-implementation Review: IFRS 8 *Operating Segments*

Deloitte Touche Tohmatsu Limited is pleased to comment on the International Accounting Standards Board's ('the Board's') Request for Information in respect of its post-implementation review of IFRS 8 *Operating Segments* ('the post-implementation review').

We support the post-implementation review programme and believe that it is a valuable addition to the Board's due process and to the aim of ensuring consistent, high quality financial reporting that provides valuable information to investors. We appreciate that, as IFRS 8 is the first Standard to be subject to this process, this review is to some extent an experiment in the post-implementation review process. We believe the process would benefit from the following clarifications.

Firstly, we believe the process would benefit from clarity that it is intended to identify whether the objectives of the Standard have been fulfilled, rather than to re-assess whether those objectives were correctly identified, as any need for a fundamental re-appraisal of the principles behind a Standard could instead be identified as part of the Board's periodic agenda consultation process. The Request for Information does not currently make clear the scope of issues to be considered and the level of amendment to a Standard that might arise following a post-implementation review as Appendix A refers to both 'issues that are identified as contentious during the development of a Standard' and to 'issues that came to our attention after the Standard was published', yet the detailed questions posed appear more likely to identify the latter.

Secondly, we believe that setting the public consultation phase of a post-implementation review within a clearly defined process would be beneficial both to the Board in determining the detailed questions to be asked and to constituents in framing their responses to those questions. Currently, the Request for Information does not clearly identify the further steps in the post-implementation review process.

In addition, the request for information focuses primarily on investors and preparers. Whilst we agree that effective input from these parties is critical to the post-implementation review process, we believe that further consideration could be given to the feedback sought from other constituents such as auditors and securities regulators (many of whom have shown an interest in IFRS 8 reporting) and the best means of collecting that feedback.

Finally, we note that the Financial Accounting Federation is currently performing a post-implementation review of FASB Statement 131 *Disclosures about Segments of an Enterprise and Related Information*. As IFRS and US GAAP are converged in the area of segmental reporting, we recommend that the Board and FASB co-ordinate any amendments to their respective guidance to ensure that consistency is maintained.

Our detailed responses to the post-implementation review questions 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) 207 007 0884.

Yours sincerely,

Veronica Poole
Global IFRS Leader – Technical

Appendix: Invitation to Comment

Question 1 – Your background and experience

Are you comparing IFRS 8 with IAS 14 or with a different, earlier segment-reporting Standard that is specific to your jurisdiction?

In providing this information, please tell us:
(a) what your current job title is;
(b) what your principal jurisdiction is; and
(c) whether your jurisdiction or company is a recent adopter of IFRSs.

This response is submitted on behalf of member firms of the Deloitte Touche Tohmatsu network. This network includes member firms operating in jurisdictions that have required public companies to report under IFRSs for a number of years, jurisdictions that have recently implemented such a requirement and jurisdictions that do not require the use of IFRSs.

For the purposes of responding to the post-implementation review questions, we are principally comparing IFRS 8 with IAS 14 and are commenting in our capacity as auditors of financial statements.

Question 2 – The use of the management perspective

What is your experience of the effect of the IASB's decision to identify and report segments using the management perspective?

Audit of the segments to be reported on under IFRS 8 necessarily includes an assessment of three judgements made by management, namely:

- identification of the chief operating decision maker (CODM);
- which components of the entity are regularly reviewed by that CODM; and
- the extent to which it is appropriate to aggregate operating segments.

Identification of the CODM has proven difficult in some circumstances, particularly when the responsibility for operating decision making is not specified by either local regulation or by the entity's governance structure or is shared by a number of individuals or groups.

Identification of the components of the entity that are regularly reviewed by the CODM can also involve the application of judgement, as internal reporting can be quite lengthy and can include supporting schedules providing information at a granular level. The CODM would also typically be able to request more detailed information as and when they feel it to be necessary (for example, if a particular segment is experiencing difficulties). In addition, this consideration is more suited to a traditional internal reporting system whereby the CODM periodically receives a standardised summary of the entity's operations than to a modern, IT driven system whereby the CODM can access information tailored to their specifications as and when they need it. As technology develops and the CODM can draw on more flexible information, it is likely to become less clear which information about which components of the entity are used for resource allocation decisions.

Aggregation of operating segments is typically the most challenging of the three judgements to assess, and has been an area of regulatory challenge in some jurisdictions. That said, a sound, reasoned position can generally be reached.

As noted in the request for information, some expected that upon implementation of IFRS 'single segment' entities would cease to exist. This has not been the case (for example, 11% of the companies included in the most recent survey of corporate reporting conducted by Deloitte United Kingdom[1] presented a single operating segment) and, as noted in the extracts from the ESMA database of IFRS decisions published in October 2012, a judgement that an entity has only one operating segment can be appropriate under IFRS 8.

Question 3 – The measurement of reported line items on a basis consistent with amounts reported to the CODM

How has the use of non-IFRS measurements affected the reporting of operating segments?

From an auditing point of view, measurement on a basis consistent with amounts reported to the CODM can be relatively straightforward, but can be complicated by the issues noted above on identification of the primary information provided to the CODM within a lengthy reporting package and, as noted above, a variety of information being available to the CODM via an entity's management reporting system. A modern management reporting system can give the CODM access to information measured in different ways and at a highly granular level so, as with the identification of operating segments, this flexibility can make identification of 'the measures reported to the chief operating decision maker' more challenging.

In terms of practice, significant differences between amounts reported to the CODM and the IFRS financial statements can occur in particular industries in particular jurisdictions in which IFRS measurement is either not considered to reflect the entity's business model or not considered to provide sufficient detail. One example of this is the inclusion of regulatory assets and liabilities in internal reporting packages (and, therefore, in IFRS 8 disclosures) but not in the entity's IFRS financial statements. Another is the inclusion of line by line information on equity accounted investments. Looking forward, it may be that entities that currently account for jointly controlled entities using the proportionate consolidation method will continue to use this method for internal reporting purposes even if their IFRS financial statements are prepared using equity accounting following adoption of IFRS 11 *Joint Arrangements*.

In circumstances such as these, the reconciliations required by paragraph 28 of IFRS 8 can become significant. Judgement is then required on the level of explanation required.

Question 4 – The reporting of only those line items regularly reviewed by the CODM

How has the requirement to use internally-reported line items affected financial reporting?

As noted in our response to Question 3, use of information as reported to the CODM poses no significant questions from an audit point of view once that information has been identified but, again as noted in our response to Question 3, this can be more challenging if the CODM can request different information at different levels of granularity as they see fit.

In terms of the effect on financial reporting, the disclosure of asset and liability figures has been affected as might be expected given the change from IAS 14's requirement always

[1] 'Pieces of Eight' available at www.deloitte.co.uk/auditpublications

to disclose capital expenditure and segment assets and liabilities to IFRS 8's requirement to do so only if that information is provided to the CODM.

Question 5 – You and your role

How have the disclosures required by IFRS 8 affected you in your role?

Transition from IAS 14 to IFRS 8 has changed the judgements to be made by preparers and thus the judgements to be made in auditing financial statements. However, as noted in our responses to the questions above the challenges posed by IFRS 8 are not insurmountable.

There are, however, two areas to which we would like to draw the Board's attention:

- certain local regulators have commented on the omission from some financial statements of the entity-wide disclosures required by paragraphs 32-34 of IFRS 8. Given this, we suggest that clarification that these disclosures are required to supplement the 'management perspective' disclosures required by the rest of IFRS 8 may be beneficial; and
- the distinction between an operating segment and an aggregated reportable segment is relatively unimportant in the context of IFRS 8 itself, but assumes much greater significance due to the requirement in paragraph 80 of IAS 36 *Impairment of Assets* that goodwill cannot be allocated to a group of cash-generating units larger than an operating segment before aggregation for the purposes of impairment testing. We believe that this interaction has added to the challenge of preparing and auditing impairment reviews and that consideration should be given as to whether the requirements of IFRS 8 could be clarified in this respect.

Question 6 – Your experience of implementing IFRS 8

How were you affected by the implementation of IFRS 8?

As noted above, the implementation of IFRS 8 has affected financial statements and has introduced challenges to the audit of those financial statements, particularly in respect of the identification of the CODM, identification of the data regularly reviewed by the CODM to make decisions about resource allocation and the appropriateness of aggregating operating segments for reporting purposes. However, these challenges have not proved insurmountable.