

**IFRS Interpretations  
Committee  
30 Cannon Street  
London, EC4M 6XH L  
United Kingdom**

## **The IFRS Interpretations Committee's tentative agenda decision on IFRS 8 *Operating Segments* – aggregation of operating segments and identification of the chief operating decision maker**

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as by enhancing investor protection.

ESMA has considered, through its Standing Committee on Corporate Reporting, the tentative decision of the IFRS Interpretations Committee not to address the issues related to 1) the *aggregation of operating segments* and 2) *identification of the chief operating decision maker* in the context of the application of *IFRS 8 – Operating Segments* either through an Interpretation or an annual improvement, but to recommend that the IASB should consider the issues as part of its planned post-implementation review of *IFRS 8 – Operating Segments*.

ESMA does not support the Committee's decision to recommend the Board to consider these issues as part of the future post-implementation review of IFRS 8 as we believe that it would be beneficial if both issues could be clarified earlier. In addition, it remains unknown precisely how and when post-implementation reviews will be carried out and more importantly what the timescale might be for dealing with any improvements identified as being needed.

### **Additional disclosures on aggregated operating segments**

We strongly support the proposal to include an additional disclosure in paragraph 22 of IFRS 8 requiring a brief description of both the operating segments that have been aggregated and the economic indicators that have been assessed in order to conclude that the operating segments have 'similar characteristics' in accordance with paragraph 12 of IFRS 8. This in, our view, would improve both the quality of information and the rationale provided to investors to help them understand an issuer's approach to segmental reporting.

Paragraph 22(a) already contains a requirement to disclose the factors used to identify the entity's reportable segments, including the basis of organisation and suggests as an example, the disclosure of whether operating segments have been aggregated. However, in our view the requirement in this paragraph is not explicit enough.

We have seen several instances in financial statements where operating segments have been aggregated into one reporting segment but where no further disclosures are provided as to which individual operating segments have been aggregated or any description of whether an assessment has been made of whether the aggregation was in line with paragraph 12 of IFRS 8: information that helps investors to better understand the risks associated to the different business activities and the judgement applied by the management in assessing whether the criteria are met.

ESMA therefore agrees with the recommendation of the Interpretations Committee's staff that the basis for such aggregation is not necessarily apparent in paragraph 22 and not necessarily triggered by the application of paragraph 17(c) of IAS 1 – *Presentation of Financial Statements*. Consequently, we agree on including a more specific requirement in IFRS 8 to disclose the basis for aggregating operating segments. In our view this additional disclosure is not a new disclosure to that required by paragraph 22 of IFRS 8; instead, it is specifying the type of information that should be included where operating segments have been aggregated, as part of the information already required by paragraph 22(a).

### **Identification of the Chief Operating Decision Maker (CODM)**

ESMA believes that further consideration should be given to the definition of the Chief Operating Decision Maker (CODM). It appears in practice that allocating resources and assessing performance may not always be carried out by the same persons or using the same set of information. It also appears in practice that some issuers have concluded that their CODM is their board of directors comprising both executive and independent non-executive directors. As operating segments are identified on the basis of information used by the CODM there is a risk that the operating segment disclosures are based on less detailed information included in board papers. The fact that non-executive directors are often identified as operating decision makers, which appears to be contradictory to their governance responsibilities, indicates that preparers appear to be confused by the definition in the standard and this could be easily resolved either by way of interpretive guidance or an annual improvement.

It is important for ESMA that the standard provides useful information to investors allowing them to evaluate the nature and financial effects of the business activities in which a company engages and the economic environments in which it operates. This is achieved through issuers reporting the information used internally to make operating decisions. For all but the most straightforward of businesses this is



unlikely to be based on the consolidated income statement which is the claim by issuers that report a single segment but, in fact, can result from confusion over the identification of the CODM.

To conclude, ESMA would strongly encourage the IFRS Interpretations Committee to recommend the Board to deal with both issues as part of the annual improvements project.

I would be happy to discuss all or any of these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'J. Galbo', written over a light blue horizontal line.

Julie Galbo

Chair of ESMA's Corporate Reporting Standing Committee