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31 July 2017

Dear Sirs,

Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

We welcome the opportunity to respond to the IASB's consultation on improvements to IFRS 8. We have responded below in more detail to the specific amendments from the point of view of our members, small and mid-size quoted companies.

Responses to specific questions

Q1 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 Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

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We agree with the Board's proposed amendments in paragraphs 7, 7A and 7B with respect to what constitutes a chief operating decision maker and believe this will be welcomed by preparers of financial statements.

We also agree with the proposal to require an entity to disclose the title and description of the role of the chief operating decision maker. This will enable users of the financial statements identify who has been designated as the chief operating decision maker and therefore understand the origination of the information that is being disclosed in accordance with IFRS 8.

Q2 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**
- (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?

With respect to the Board's proposal to add a requirement in paragraph 22(d), we are concerned that the definition of the term "annual reporting package" – as outlined in paragraph 19B – has been drafted too loosely, particularly with respect to documents published at "approximately the same time as the entity's annual financial statements".

There is a risk that auditors will delay sign off until all this information is ready, which will delay the release of price sensitive information to the market. We consider that the IASB is operating outside of its remit and that other regulators are better placed to act if there is a problem in the market place.

We also question why segments identified in the financial statements would be different from those identified elsewhere. We note that the FRC has examined instances, whereby segments disclosed in the "front half" and the "back half" of an annual report are inconsistent. We would either expect these to be the same or for there to be an explanation of, for example, what has been aggregated.

Furthermore, we question whether such an explanation will elicit the intended response of the Board. Many preparers find the application of IFRS 8 a challenge and therefore having to explain how the segments differ from those in the annual report in a meaningful and useful manner may prove even more challenging.

We agree with the proposal to add further examples to the aggregation criteria in paragraph 12A of IFRS 8 as it will further assist preparers in understanding IFRS 8's requirements.

Q3 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 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 the proposed amendment in paragraph 20A of IFRS 8 which allows an entity to 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. It would introduce flexibility for preparers to provide meaningful information in respect of their segmental data reported in the financial statements.

Q4 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 in paragraph 28A of IFRS 8 clarifying the nature of reconciling items which are expected to be disclosed. It provides clarity to preparers of financial statements of the types of material reconciling items that should be given in the segmental information disclosures.

This notwithstanding, as a general comment, we note that smaller companies tend to have relatively fewer product lines or customers than their larger counterparts, where lots of aggregation happens. Therefore having to potentially disclose detailed, commercially sensitive information will concern these companies. Some companies will reorganise their internal management structures and/or reporting processes to avoid providing such information, which will lead to suboptimal internal reporting, additional costs and potentially a higher level of risk from poorer management information. Furthermore, any subsequent segmental disclosures are then less meaningful to users of accounts. Our members have told us that, for smaller entities, the additional information content does not justify the cost of producing it, especially given that it often leads to information overload.

Q5 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?

We agree with the Board's proposed amendment to 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, as it maintains the principle of consistency where there is a change in the reportable segments.

Improvements to IFRS 8

31 July 2017

Page 4

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'TW', with a horizontal line extending to the right.

Tim Ward

Chief Executive

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Howells (Chairman)	Smith & Williamson LLP
Matthew Stallabrass (Deputy Chairman)	Crowe Clark Whitehill LLP
Jonathan Compton	BDO LLP
Amy Shephard	Deloitte LLP
Gary Jones	Grant Thornton UK LLP
Anthony Carey	Mazars LLP
Rochelle Duffy	PKF Littlejohn LLP
David Hough	RSM
Neil Armstrong	Unattached
Edward Beale	Western Selection Plc