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Mr. Bruce Mackenzie
Chair of the IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
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Our ref BOD/288

5 February 2024

Dear Mr. Mackenzie

Tentative agenda decision: *Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 Operating Segments)*

We appreciate the opportunity to comment on the IFRS Interpretations Committee (the Committee) tentative agenda decision *Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 Operating Segments)* (the TAD) published in the November 2023 IFRIC Update. We have consulted with, and this letter represents the views of, the KPMG network.

We agree with the Committee's observations for Question (a) in the TAD. However, in relation to the other questions, we have significant concerns with the observations made in bullet points (a)-(d) in the closing section of the TAD on the meaning of "material items of income and expense" in the context of paragraph 97 of IAS 1 as referenced in paragraph 23(f) of IFRS 8.

In particular, we are concerned with the specific observation described in bullet point (d) as it doesn't reflect the current interpretation of the requirements or current practice. We believe the interaction between the requirements in IAS 1.97 and IFRS 8.23(f) is not clear. While any interpretation of IFRS 8.23(f) disclosure largely stems from what is the intended scope of IAS 1.97 disclosure, it also needs to consider the core principle and disclosure objective in IFRS 8, as well as the 'management approach' that underpins the standard, in order to result in a meaningful disclosure.

As evidenced in the outreach results, the interpretation of the requirements and practice has evolved in a way that could be undermined by the agenda decision. Under current practice, few, if any, entities seek to include *all* material income and expense items in the segment note to satisfy IFRS 8.23(f). Instead, entities disclose selected items that they believe will be important to users when disclosed in this context – i.e. qualitatively material/unusual items within the segment measure of profit or loss given the link to IAS 1.97 (from IFRS 8.23(f)). This practice is consistent with the nature of the examples listed in IAS 1.98 illustrating circumstances that would give rise to separate disclosure of items under IAS 1.97.

We also believe that the application of the wide interpretation of the requirements as described in the TAD could result in excessive information being provided in the segment note, thereby potentially obscuring other material segment information provided in that note. We do not believe that such additional disclosure would help demonstrate the 'management approach' adopted by the International Accounting Standards Board (the IASB) when developing IFRS 8. In addition, it is questionable how it would help to satisfy the core principle and disclosure objective of IFRS 8.

Finally, we also have concerns with the clarity of the TAD itself (e.g. how question (c) and observation in bullet (d) are phrased) and we do not believe that the agenda decision as drafted would drive consistent application of the requirements.

In light of the above concerns, in particular the lack of clarity of the requirements and the implications of the TAD, we recommend that the Committee publish an agenda decision addressing only question (a) in the TAD but refer the other matters to the IASB for further consideration, which may include standard-setting.

Our more detailed observations are provided in the appendix to this letter.

Please contact Brian O'Donovan at brian.odonovan@kpmgifrg.com or Gabriela Kegalj at gabrielakegalj@kpmg.ca if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix

Concerns with observations for Questions (b) and (c) and the implications of the specific observation described in bullet point (d)

The observations for these questions imply that the meaning of "material items of income and expense" in the context of paragraph 97 of IAS 1 as referenced in paragraph 23(f) of IFRS 8 is clear. However, as seen from the outreach, not all respondents believe that the principles and requirements are clear. In addition, we note from the Committee's public discussion that Committee members had mixed views and the TAD was supported by the smallest possible majority. As such, we do not believe it would be appropriate to issue a final agenda decision that implies the requirements are clear.

We are also concerned that the observation made in bullet point (d) may be interpreted too widely, resulting in significant implications. Bullet point (d) could be literally understood to mean that an entity includes in its IFRS 8 segment note _all_ material items of income and expense presented or disclosed in the financial statements that are included in the measure of segment profit or loss reviewed by the CODM.

Under this literal reading, an entity would disclose for each reportable segment a full profit and loss account (down to the measure of segment profit or loss reviewed by the CODM) and all material items included in the associated notes. This could include, for example, disaggregated revenue, multiple analyses of expenses, share-based payment expense, related party transactions etc. If the CODM reviews a measure of profit before tax, this would result in excessive information that would likely obscure other material segment information. In contrast, if the measure of segment profit or loss reviewed by the CODM is a simpler contribution margin, most of these amounts would not be disclosed.

We are concerned the excessive information that would be required under this reading of the Committee's response would contradict the core principle and disclosure objective of IFRS 8, as well as the 'management approach' that underpins the standard.

The Committee's observations highlight the lack of clarity in how the IFRS 8.23(f) requirements interact with IAS 1.97 given the objective of segment information disclosure. In absence of more specific guidance about the interaction between IAS 1.97 and IFRS 8.23(f), we are concerned with such a wide interpretation; as seen from the outreach, not all respondents apply themselves, or observe the application of such wide interpretation in practice generally.

Comments from outreach respondents indicate that interpretation of the requirements and their application in practice under IFRS 8 has developed based on the understanding that the requirements are converged with those of the US GAAP equivalent standard[1] except for the matters highlighted in IFRS 8.BC60 – i.e. both

[1] Segment Reporting (Topic 280).

accounting standards require disclosure of ‘unusual’ items of income and expense within the measure of segment profit or loss. This may have been the reason why the issue was not raised during the Post Issuance Review of IFRS 8. This elicits additional concerns with a wide interpretation of the interaction between IAS 1.97 and IFRS 8.23(f).

We note that such a wide interpretation makes no sense in the context of how IFRS 8.23 is drafted. IFRS 8.23 sub-bullet (a) refers to disclosure of “revenue” from external customers, so if sub-bullet (f) means “all material items ...” it would imply that sub-bullet (a) must mean 'revenue if not material'. The general premise of disclosure under IFRS Accounting Standards is that the information is only disclosed when material.

Furthermore, we note that the illustrative example in IFRS 8.IG3 itself does not include *any* items of income and expense under IFRS 8.23(f) and doesn’t provide any explanation why this is the case.

Finally, we are concerned about the unintended consequences of issuing an agenda decision that includes such a wide interpretation of the disclosures required under IFRS 8.23(f). For example, to avoid providing excessive information about each reportable segment, entities may be incentivised to alter their internal reporting and change the measure of segment profit or loss reviewed by the CODM and/or the information otherwise regularly provided to the CODM. Alternatively, where the CODM reviews multiple measures, entities may seek to disclose the measure that results in the least IFRS 8 disclosure even if the measure is not considered to be the key measure of segment profit or loss for each reportable segment. This would undermine the objective of IFRS 8 by resulting in a loss of potentially valuable information for users.

Given that the TAD seems to introduce a different and wider interpretation of the requirements, the change for practice would be significant. It may result in disclosure of (i) information which is not necessarily provided through the ‘management lens’ and (ii) significant additional information compared to current practice without necessary due process and cost-benefit analysis. As such, we believe the more appropriate action would be for the Committee to refer the matter to the IASB for standard-setting and not finalise the agenda decision.

Concerns about the understandability of Questions (b) and (c)

While we understand that these might be the questions asked in the submission, we are concerned that when read without a broader context they will not be easily understood and, more importantly, they seem to drive inappropriate conclusions with significant implications contradicting the core principle in IFRS 8. Finalising the agenda decision as drafted will not lead to more consistent application of the requirements of IFRS 8 because the questions (and resultant observations) are difficult to understand and not the only interpretation of the requirements.

However, if the Committee decides to proceed with an agenda decision that addresses questions (b) and (c), at a minimum we believe that the question should be rephrased to be more understandable, for example, ‘How does an entity assess what amounts to disclose to meet the requirement in paragraph 23(f) of IFRS 8?'. This articulation would then permit an educational-style agenda decision explaining the process the entity would apply.