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By email: commentletters@hkicpa.org.hk

Ms. Christina Ng
Director
Standard Setting Department
Hong Kong Institute of Certified Public Accountants
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Dear Christina

IASB Exposure Draft ED/2017/2 Improvements to IFRS 8 Operating Segments (Proposed Amendments to IFRS 8 and IAS 34)

Thank you for your letter dated 7 April 2017 inviting our comments on the captioned IASB exposure draft. Our comments on the specific questions raised in the exposure draft are set out in the enclosed annex for your consideration.

Should you have any questions, please contact our Manager Ms Emily Ngan at 2526 6080 or our Officer Ms Melissa Law at 2567 1780.

Yours sincerely

Celia Shing
Secretary

Enc.

Chairman Bank of China (Hong Kong) Limited
Vice Chairman The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Secretary Celia Shing

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秘書 盛思怡

Annex: HKAB Comments on IASB Exposure Draft ED/2017/2 Improvements to IFRS 8 Operating Segments (Proposed Amendments to IFRS 8 and IAS 34)

Question 1

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 of 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?

We agree with the proposed amendments, in particular that this will help users of the financial statements to understand who the chief operating decision maker (“CODM”) is and how they view the business. The proposed criteria above should achieve this clarification. While this will increase transparency, we are uncertain of how significant impact this will have on the users of the financial statements and would like the IASB to provide their perspective on this.

Question 2

In respect of identifying reporting 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?

We agree that proposal (a) above will enhance the consistency and comparability of the annual report and segmental reporting. This should further assist users in understanding the information presented.

We also agree with proposal (b) as adding more examples will help preparers of the financial statements apply judgement in preparing and disclosing segment information. We note that the example provided in BC22 of this Exposure Draft, which also references paragraph 12 of IFRS 8, is a quantitative example (i.e. same gross margin percentage). While we believe that other qualitative examples will be provided in due course, we would like to highlight that it will be challenging for preparers to only use quantitative measures in this assessment. Accordingly, we request the IASB clarify that it is not mandatory to use quantitative measures for this assessment.

Question 3

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 amendments? Why or why not? If not, what do you propose and why?

We agree with this proposal. In particular, by not requiring that the additional information presented is reviewed by CODM will provide greater flexibility when preparing segmental reporting information. However, we consider that the overriding principle in IAS 1 paragraphs 17 (c) and 31

should be applied as this already requires entities to provide additional disclosures if those provided strictly in accordance with IFRS are insufficient. Therefore although a positive, this does not appear to change the principles that are to be applied in preparing the financial statements as a whole.

Question 4

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 amendments? Why or why not? If not, what do you propose and why?

We agree with this proposed amendment as the materiality principle provides a pragmatic approach to enhancing users' understanding of the information presented while balancing the additional cost of preparing such disclosures.

Question 5

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 amendments? Why or why not? If not, what do you propose and why?

We agree with the proposed amendments to IAS 34 as mentioned above. However, we would like to highlight that IFRS 8 paragraph 29 includes a requirement to restate prior period disclosure of segment information if the entity changes its structure. By requiring these entities restate historical information due to this amendment may lead to misunderstanding from users on the reason for the change in presentation. Furthermore, it would not be a true and fair reflection of the structure of the business in the prior period. This could result in user's finding the information less meaningful or confusing. Therefore, we believe that the impact of this change should not be applied retrospectively.

We note the IASB allows for organisations not to apply the change retrospectively if the cost to develop it would be excessive. In practice, it should be possible for all institutions to obtain the required information, however, we believe it would be difficult to demonstrate or justify that such cost is "excessive".