



International Accounting Standards Board (IASB)
30 Columbus Building
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Canary Wharf
London E14 4HD
United Kingdom

Berne, February 5, 2024

SwissHoldings Comment Letter on IFRIC TAD on Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 Operating Segments)

Dear Madam, dear Sir

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 61 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to this Tentative Agenda Decision (TAD). Our detailed response (in the appendix) has been prepared in conjunction with our member companies.

We would particularly like to draw the attention of the Board and the IFRS Interpretations Committee (IC) to the following points:

- 1) We do not believe that there is diversity in practice about how the requirements of IFRS 8 should be applied. Our survey of 18 Swiss listed entities shows that only one of them produce a full breakdown of their income statement in their segment disclosures, and this is done voluntarily (and was done so in 2007, before IFRS 8 was issued). On that basis, we do not believe that a technical analysis of the requirements of IFRS 8 and the cross reference to IAS 1 is required. Therefore, the IC should decline to take the matter to its agenda on the basis that "the matter does not have widespread effect and does not have, nor is expected to have, a material effect on those affected". We think this would be the simplest and most appropriate solution.
- 2) The submitter proposes a re-interpretation of IFRS 8 which is not obvious from the plain reading of the standard, nor in line with widespread practice, nor the intention of the IASB when IFRS 8 was issued. If the IASB had wanted a full breakdown of the income statement in the segment disclosures, it would have been much easier to simply say this clearly in IFRS 8, rather than rely on a tortured reading of the cross-reference to IAS 1. Nevertheless, the TAD does not explicitly rule out this re-interpretation, which we think could lead some to interpret this as an endorsement, which would lead to increased diversity in practice.
- 3) We wish to express our concern to the IASB and the IC about changes to widespread practice being introduced via the "backdoor" of an agenda decision. Fundamental changes to disclosures (or accounting requirements) need to go through the full standard setting due process, as was done for the reconciliation of operating expenses by nature and function, during the development of IFRS 18. The re-interpretation put forward by the



submitter is even more fundamental a change in practice than the “full-matrix” approach which the IASB has wisely rejected in favour of a pragmatic “partial-matrix” approach. We note that current application of IFRS 8 is another form of partial-matrix disclosure, which should not be discarded via an agenda decision.

We remain at your disposal in case you would like to discuss any of these points with us.

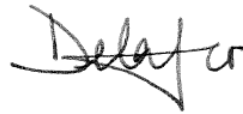
Yours sincerely,

SwissHoldings

Federation of Industrial and Service Groups in Switzerland

A handwritten signature in black ink, appearing to read "G. Rumo".

Dr Gabriel Rumo
Director

A handwritten signature in black ink, appearing to read "Denise Laufer".

Denise Laufer
Member Executive Committee

Appendix 1 – Detailed Response

Material items of income and expense

First and foremost, we would like to raise a number of arguments why we disagree with the TAD and oppose its publication in its current form on the basis of the IASB due process:

- 1) In our view, the matter does not have widespread impact: companies, auditors and regulators already know how to apply judgement to implement IFRS 8.23 and the cross reference to IAS 1.97. Specifically, there is no significant diversity in practice in our jurisdiction. The vast majority of a sample of 18 listed IFRS preparers in CH include disclosures in their segment reporting of both the specifically mentioned lines, and a limited number of additional lines which are not enumerated in paragraph 23. Only one preparer out of the 18 surveyed fully replicates all the lines of its income statement down to operating profit in their segment disclosures. We also note that the PIR of IFRS 8 did not raise this as a significant issue. Since this is not an area of dispute with auditors nor with the regulator, the IC should not raise the possibility of there needing to be a change to the status quo by issuing this TAD in its current form. Instead, the final Agenda Decision should be reworded so that the IC declines to add the matter to the agenda “on the basis that the matter does not have widespread effect and does not have, nor is expected to have, a material effect on those affected”.
- 2) The view presented by the submitter is that all lines presented on the face of the P&L, as well as any additional income or expense items disclosed in the notes, must to be presented in the segment note. Specifically:
 - a. *“...we see IAS 1.97 to be the ‘catch all’ for all income and expense items. In other words, if the nature and amount of a material item of income and expense is disclosed because of another IFRS paragraph or standard, it is also being disclosed because of IAS 1.97”;*
 - b. *“IAS 1.97 read with IAS 1.29 and 1.30 would imply that the items required should be grouped or condensed by nature – i.e. they should be items that have a common nature. Accordingly, materiality is assessed at a line item level (i.e. the line item being the grouping of similar transactions)”;*
 - c. *“...a materiality assessment for income and expenses should be done at an income statement level for the reporting entity. If [disclosed] at an income statement level, the income or expense item should be disclosed in the relevant segments (irrespective of its materiality to a specific segment).”*

We note with concerns that this [radical] re-interpretation of IFRS 8 is not explicitly rejected by the IC in this TAD. We consider this re-interpretation to be inconsistent with the actual requirements of IFRS 8 (see below), which could provoke dramatic changes in approaches by regulators and auditors. The possibility that the TAD as currently worded could be read as endorsing this novel “expansive” position cannot be excluded, which would represent a massive change in practice for our member companies. We are convinced that the IASB would agree that such a change in practice should not be introduced “via the back door” of an Agenda Decision.

- 3) We confirm that many companies do not systematically track at the level of the operating segment all items in the income statement and other expense line items which might be subject to the expansive re-interpretation of IFRS 8.23f. For example, employee benefits (required to be disclosed under IAS 19) may not be systematically tracked at the segment level. Mandating such disclosure would require IT system configuration efforts which would be comparable to the full-matrix disclosure which was considered and [wisely] rejected by the IASB in developing IFRS 18.

Secondly, we would like to raise concerns about the technical analysis in the submission which we do not consider have been appropriately handled in the TAD:

- 1) The cross reference to IAS 1 is widely understood to be a reference to paragraphs 97 and 98. This has been true since the issuance of IFRS 8. This was clearly the intention of the IASB, as evidenced in the Basis for Conclusions:

- a. *“BC8: ... the Board decided to adopt the US approach..”*
- b. *“BC16: Given the Board’s support for the principles of the management approach required by SFAS 131 and the objectives of the short-term convergence project, the Board decided that the simplest and most complete way to achieve convergence would be to use the text of SFAS 131 for the IFRS.”*
- c. *“BC17: The FASB’s thinking behind the management approach of SFAS 131 is presented in its Background Information and Basis for Conclusions. Because the Board has adopted that approach, the FASB’s Background Information and Basis for Conclusions are reproduced in Appendix A to this Basis for Conclusions. The few differences from SFAS 131 that the Board has included in the IFRS are noted in paragraph BC60 below.”*
- d. *“In developing the IFRS, the Board included the following differences from SFAS 131:*
 - (a) The FASB Guidance on Applying Statement 131 indicates that the FASB staff believe that ‘long-lived assets’, as that phrase is used in paragraph 38 of SFAS 131, implies hard assets that cannot be readily removed, which would appear to exclude intangibles. Non-current assets in the IFRS include intangibles (see paragraphs BC56 and BC57).*
 - (b) SFAS 131 does not require disclosure of a measure of segment liabilities. The IFRS requires disclosure of segment liabilities if such a measure is regularly provided to the chief operating decision maker (see paragraphs BC36–BC38).*
 - (c) SFAS 131 requires an entity with a matrix form of organisation to determine operating segments based on products and services. The IFRS requires such an entity to determine operating segments by reference to the core principle of the IFRS (see paragraph BC27).”*

It is clear that the IASB intended the reading of the cross reference to IAS 1.97 to be read in the context of paragraph 98, which contains similar items as would be “unusual” in US GAAP, as this would achieve the desired convergence between the two frameworks. Furthermore, if the IASB had intended that the cross reference should have been read expansively, then this would have been noted in BC60. We therefore disagree with the analysis of the staff in paragraphs 53 and 54 of the agenda paper, since there is no evidence in the wording of the standard nor in the Basis for Conclusions that the IASB had a broad reading in mind which differs substantively from the US GAAP concept of unusual items. We also note that the IASB included in Appendix A of the Basis for Conclusions to IFRS 8 paragraph 92 of the Background information and basis for conclusions of the US Financial Accounting Standards Board on SFAS 131, and did so without any wording to explain a different application in IFRS 8.

If (on reflection) the IC would conclude that standard setting action needs to be taken in response to the submission to remove the alleged diversity in practice, then we recommend that the original intention of the IASB be confirmed. In that case, either an Agenda Decision should be issued confirming that paragraphs 97 and 98 are the two paragraphs which the IASB initially referred to (not the series of paragraphs that the submitter tried to link to the cross reference), or a change to the wording of IFRS 8 should be made to explicitly include paragraph 98 in the cross reference.

- 2) To support this view, we refer to the Illustrative Example which accompanies IFRS 8. It is clear from this example that the cost of sales line would be expected to be material for this company, since the vast majority of its activities relate to the sale of goods and services (only LC 5’000 out of LC 35’000 of segment revenue relates to finance). The fact that the Board did not illustrate the applicability of paragraph 23(f) of IFRS 8 to this company as requiring disclosure of the cost of sales is a clear indication that the intention was never to bring lines “automatically” from the statement of profit or loss to the segment disclosures simply because the amounts were “quantitatively material”.
- 3) In conclusion, the IC cannot re-interpret the words chosen by the IASB at the time and ignore the context in which they were chosen. While the IASB did not explicitly adopt the

concept of “unusual items” which exists in US GAAP (and has decided not to do so again in the development of IFRS 18), this does not mean that the intention of the Board can be disregarded. This standard was a convergence standard, aimed at replacing IAS 14, and such a significant divergence would have been explicitly mentioned if the Board had intended it to be interpreted this way.

Next, we would like to turn to the wording of the TAD itself.

- 1) We agree that “*the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to apply the disclosure requirements in paragraph 23 of IFRS 8.*” However, we disagree with how this has been described by the IC in the TAD.
- 2) As stated before, we consider that there is no misunderstanding of the requirements of IFRS 8, as observed in practice. We consider that the wording of the TAD is ambiguous and will not provide guidance on how to apply the requirements of the standards. Those (like the submitter) who consider that the full income statement, and other expense disclosures must be broken out in the segment disclosures will look to items b., c. and d. of the observations noted in the TAD:

“b. applies the requirements in paragraphs 29–31 of IAS 1 in considering how to aggregate information in the financial statements;

c. considers both qualitative and quantitative factors, representing the nature or magnitude of information, or both, in assessing whether an item of income and expense is material; and

d. does not omit material items on the basis that those items are presented or disclosed applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1.”

and will to conclude that the IC has supported their view.

If this is not the intention of the Board (which we do not think it is, as explained above), then the IC should say so explicitly in the final TAD. It cannot leave the wording of the TAD unadjusted, since this is open to a wide degree of interpretation and will not contribute to eliminating the alleged diversity in practice.

- 3) In conclusion, if the IC continues with the technical analysis of the requirement, then we suggest that the observations of the IC be reworded significantly, to reflect the original intention of the board.

Disclosure of specified amounts

Finally, turning to the other matter (Disclosure of specified amounts) raised in the TAD: we agree with the analysis of the staff as described in paragraphs 23 and 24 of the staff paper. We therefore agree with the wording of this section. Nevertheless, for the reasons we mentioned in the first part of this analysis, we consider that it would be preferable for the agenda decision to be reworded so that the IC declines to add the matter to the agenda “on the basis that the matter does not have widespread effect and does not have, nor is expected to have, a material effect on those affected”.