

2020

Financial Reporting Supervision

Information Note

IFRS 8 *Operating Segments* – Identification of Chief Operating Decision Maker

MISSION

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CONTENTS

	Page
Key message.....	1
1. Purpose of this Information Note	1
2. Definitions of 'Chief Operating Decision Maker' and 'Operating Segment'	1
3. Why is it important to correctly identify the CODM?	2
4. IAASA examinations	2
5. Conclusions.....	3

INFORMATION NOTE

IFRS 8 OPERATING SEGMENTS – IDENTIFICATION OF CHIEF OPERATING DECISION MAKER

Key message

One of the identifying features of an operating segment is that the segment results are regularly reviewed by the Chief Operating Decision Maker (CODM). Therefore, the identification of the CODM is an important step in the process of identifying operating segments. The identification of operating segments also has implications on impairment testing.

Given these implications, IAASA is publishing this Information Note to assist issuers in identifying the person or group of people as CODM. This Information Note lists the information requests that IAASA has asked of issuers during the 2020 financial statement examination cycle to understand the rationale used by issuers in determining the person or group of people who perform the function of CODM.

1. Purpose of this Information Note

The primary purpose of this Information Note is to provide preparers, auditors and users of financial statements with information to encourage discussion and stimulate debate on how issuers correctly determine the person or group of people who perform the function of 'Chief Operating Decision Maker' (CODM).

With the aim of achieving this primary purpose, IAASA is publishing the information requests that it has asked selected issuers during the 2020 financial statement examination cycle regarding those issuers' rationale as to how they determined the person or group of people who perform the function of CODM.

2. Definitions of 'Chief Operating Decision Maker' and 'Operating Segment'

IFRS 8 *Operating Segments* requires disclosure of information about an entity's operating segments, its products and services, the geographical areas in which it operates and its major customers. IFRS 8 requires the disclosure of certain key items by segment so as to enable users to evaluate the nature and the financial effects of the business activities in which the entity engages and the economic environment in which it operates.

Paragraph 7 of IFRS 8 *Operating Segments* states that:

'The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others ...'

IFRS 8.5 defines an operating segment and states that:

'An operating segment is a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),*
- (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and*
- (c) for which discrete financial information is available.'*

3. Why is it important to correctly identify the CODM?

Correctly identifying the person or group of people who carry out the function of CODM is one of the steps that will assist issuers in correctly identifying their operating segments.

The identification of operating segments has implications on the performance of impairment tests as operating segments are used to determine the level at which impairment testing is performed. For example, goodwill acquired in a business combination must be allocated to each of the acquirers' cash-generating units (CGUs) or group of CGUs. Each CGU to which the goodwill is allocated shall:

- (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
- (b) not be larger than an operating segment as defined by IFRS 8.5 before aggregation.

The above mentioned requirement – which is set out in paragraph 80 of IAS 36 *Impairment of Assets* – results in goodwill being tested for impairment at a level that reflects the way an issuer manages its operations and with which the goodwill would naturally be associated [IAS 36.82 refers].

4. IAASA examinations

In undertaking examinations of financial reports, IAASA has observed that some issuers have determined that the CODM comprises:

- (a) the chief executive officer (CEO); or
- (b) the CEO and Chief Financial Officer; or
- (c) a group of executive managers and/or the Board of Directors.

During 2017, IAASA published a [thematic survey](#) on issuers' operating segment disclosures. Included within that publication was a list of the person(s) who performed the function of CODM for the issuers included in that survey.

In order to understand issuers' rationale for determining the person or group of people who perform the function of CODM, IAASA sought additional information from selected issuers. Set out below is a non-exhaustive list of information requests that IAASA asked of certain issuers during the 2020 financial statement examination cycle:

- set out the role of the Board of Directors, including the non-executive directors, in allocating resources to and assessing the performance of the operating segments of the issuer;

- explain in detail why the full Board of Directors is not considered by the issuer to be part of the CODM.
- explain in detail as to how the Segment X was determined, including how the Segment X acquisition was integrated within the issuer's operations;
- explain the responsibilities of the senior management team (or similar such named groupings);
- clarify which individuals report to the CODM;
- describe how the performance of the issuer's operating segments are assessed;
- describe the information that the CODM reviews to (1) make decisions about resources to be allocated to operating segments and (2) to assess performance of the issuer's operating segments;
- clarify which individuals comprise the CODM;
- explain the basis for determining Person X or Group X as the CODM; and
- explain the responsibilities of the CEO of each of the issuer's subsidiaries.

5. Conclusions

IAASA will continue to focus on and engage with issuers in relation to their rationale for determining the person or group of people performing the function of CODM, particularly where the following events occur during an issuer's financial year:

- (a) substantial changes are made to an issuer's organisational structure (e.g. a new layer of management is established);
- (b) a substantial acquisition is completed; and/or
- (c) a material subsidiary is disposed.

It is also IAASA's expectation that management, Boards and Audit Committees will carefully assess and consider the types of information requests outlined in section 4 above when identifying the person or group of people who perform the functions of CODM.



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