ED 145 sub 6

27 April 2006

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Cc Kil-woo Lee, Project Manager, IASB

Dear David,

ED 145/ED 8: Operating Segments

The Institute of Chartered Accountants in Australia (ICAA) welcomes the opportunity to make a submission on ED 145.

We support these proposals, since, in our view, segmentation "through the eyes of management" will result in more relevant information for users.

We do, however, note that the proposals in ED145/ED 8 will require significant change to the way Australian companies do segment reporting, but can see that convergence with the FASB in this area is inevitable. We therefore recommend that the AASB do all it can to educate Australian preparers and auditors as to the impact of these changes. Any implementation guidance issued with the final IFRS standard should also be issued as part of the AASB standard.

We also support the introduction of segment reporting for not-for-profit entities. From our discussions with members, it appears that there are many not-for-profit entities where segmentation would provide useful information for users of the accounts.

Our detailed comments can be found in the appendix to this letter. If you require any further information on any of our views please contact Stephanie Kemp CA on 02 9290 2702 or skemp@icaa.org.au.

Yours sincerely

Keith Reilly FCA
Technical Standards Adviser

AASB Questions

(a) whether the proposed scope is appropriate, whether the existing scope of AASB 114 should be retained or whether an alternative scope is more appropriate;

We agree with the proposed scope, namely that the new standard should apply to disclosing entities only. We note that the original AASB 1005 only applied to listed entities and welcome a return to that regime.

(b) whether segment reporting requirements based on the proposals would be appropriate to apply to not-for-profit entities in the:
(i) public sector;
(ii) private sector.
The AASB is particularly interested in learning of practical impediments to adopting a similar approach in respect of not-for-profit entities;

From our conversations with members with non-government not-for-profit clients, we are of the view that a not-for-profit standard on segment reporting would be a welcome development in non-government not-for-profit reporting. Not-for-profits frequently have disparate activities (for example catering and bars on the one hand and sporting facilities on the other) and segmented information would be useful to readers.

We appreciate that there is an inconsistency with our answer to (a), but in our view, the not-for-profit sector has particular accountability issues and we gather from our constituents that users would benefit from segment disclosure.

We are aware of some resistance in the government sector to segment reporting and suggest that the government sector not be required to do segment reporting until the GFS/GAAP convergence project is complete. The issue should then be revisited.

(c) any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals; and

We are not aware of any such issues.

(d) whether the proposals are in the best interests of the Australian economy.

The proposals appear to be in the best interests of the Australian economy.

IASB Questions

Question 1 – Adoption of the management approach in SFAS 131

The draft IFRS adopts the management approach to segment reporting set out in SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* issued by the US Financial Accounting Standards Board.
Is this approach to segment reporting appropriate? If not, why not? What, if any, alternative approach would you propose?

The proposals represent a change in approach from the question “Where does this entity derive its income from?” to “How does this entity work from management’s perspective?” Both are valid questions and it comes down to a decision as to which question best serves the needs of users. We can see benefits in both approaches, but suspect that management will not be keen to divulge to competitors any more information about how the business works than is absolutely necessary. We do not have a strong view on which approach is best conceptually, but do support global harmonization so that entities do not have to prepare more than one set of information for different regulators.

Question 2 – Divergence from SFAS 131

The wording of the draft IFRS is the same as that of SFAS 131 except for changes necessary to make the terminology consistent with that in other IFRSs.
Do you think that the draft IFRS should depart from the management approach in SFAS 131 by setting requirements for
(a) the measurement of specified items or
(b) the disclosure of specified amounts that might otherwise not be given?
If so, identify the requirements you would add and indicate what you see as the relative costs and benefits of any such requirements.

As we noted above, we support the approach taken in this ED in the interests of international harmonization. In the interests of harmonization, differences between SFAS 131 and the IFRS should be minimized.

We note the change from “long-lived assets” in SFAS 131 to “non-current assets” in ED 145 (paragraphs BC 14 and 15). We agree that the stance the IASB has taken results in more meaningful information, but suggest that the IFRS should require disclosure of a sub-total of tangible non-current assets that lines up with the requirements of SFAS 131.

Question 3 – Scope of the standard

The existing standard IAS 14 requires entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets to disclose segment information. The draft IFRS extends the scope to include also entities that hold assets in a fiduciary capacity for a broad group of outsiders.
Do you agree with the scope of the draft IFRS? If not, why not?

We agree with the proposed scope.

Question 4 – Level of reconciliations

The draft IFRS requires an entity to provide, for specified items, reconciliations of total reportable segment amounts to amounts recognised by the entity in accordance with IFRS. It does not require such reconciliations for individual reportable segments.
Do you agree with the level of reconciliations required in the draft IFRS? If not, indicate what you see as the relative costs and benefits of any other level of reconciliation.

We agree with the level of reconciliation required in paragraph 27.

However, we would also like to see the geographical information reconciled to the total revenue. We cannot see how the CU31,000 in paragraph IG5 ties in with any of the other information given.

Question 5 – Geographical information about assets

The draft IFRS requires an entity to disclose geographical information about non-current assets excluding specified items. It does not require disclosure of geographical information about total assets.

Do you agree with the requirement to disclose geographical information about non-current assets excluding specified items? If not, for which assets would you require geographical information to be given?

We agree with this proposed disclosure. As the IASB notes in BC 14 and 15, this is a variation from SFAS 131, but in our view, intangible assets have as much to do with an entities ability to generate future cash flows as tangible assets and we support this change.

Question 6 – Consequential amendments to IAS 34 *Interim Financial Reporting*

The draft IFRS requires an entity to disclose more segment information in interim financial reports than is currently required, including a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss.

Do you agree with the consequential amendments made to IAS 34? If not, why not?

The IFRIC Draft Interpretation D18, Interim Financial Reporting and Impairment, has shown that there are fundamental issues to do with the nature and purpose of interim financial reporting which need to be resolved. We suggest that IAS 34 should be left alone as much as possible at present, until such time as the IASB decides to commence work on its comprehensive revision.

We therefore suggest that the disclosures be limited to segment revenue and segment profit/loss as at present.