ED 145 sub 2

GROUP OF 100

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Dear Mr Lee

ED 8 Operating Segments

The Group of 100 (G100) welcomes the opportunity to provide comments on the Exposure Draft. The G100 represents the interests of the CFOs of Australia's major business enterprises.

While the G100 supports the objectives of the IASB/FASB convergence project we question whether the benefits of undertaking convergence in respect of segment reporting have been established. The G100 believes that priority should be given to achieving convergence in respect of recognition and measurement differences in preference to those which are purely disclosure based. Given the objectives of segment reporting and the requirements of the respective standards (IAS14 and SFAS 131) it is unlikely that a convergence of the requirements will significantly enhance the overall quality of financial statements.

In addition, the vast majority of Australian reporting entities will present their first set of annual IFRS compliant financial statements for the year ending 30 June 2006. Having prepared for the implementation of Australian equivalents to IFRSs these entities will be required to change the basis of segment reporting two years after this implementation date. For some entities these changes will be significant.

Our responses to the specific questions are set out below.

Q1. 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 G100 supports the management approach for determining reportable segments. This approach is supported because it does not require an entity to report externally in a way that is inconsistent with the way in which the business is organised and structured. In addition, the benefits to users is enhanced since they can assess the performance of the segments of the business as they are structured and reviewed by management.

However, the G100 does not believe that the information reported must only be that reported internally to management. Management must make decisions about the performance of segments across the operations of the entity. On the other hand while users are making performance and allocation decisions these decisions are of a different order and nature to those made by management in relation to driving the operations of the entity.

While the management approach may impair comparability between entities the G100 believes that the principal focus should be on achieving comparability through time in respect of the reporting entity. The management approach can enhance this benefit in respect of a single entity provided that there is consistency in approach. On the other hand the scope for exercising judgement in applying IAS 14 does not necessarily result in consistency of approach across entities including those in the same industry.

Although the use of information reported internally has the advantage of providing a better understanding of the operations of the businesses through the eyes of management there is a potential for some entities to be competitively disadvantaged because they produce management reports in a different manner to their competitors. For example, segment profits in a particular market/product may be significant for an entity and, if reported internally, would require disclosure. However, a competitor in the same market, but with different reporting criteria, may not disclose such information. This issue is exacerbated for small entities in competition with large entities. In addition, under the proposals vertically integrated operations may, depending on internal reporting criteria, be identified as reportable segments.

Q2. 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.

It is still too early to determine whether the extent of convergence of corporate information systems will be enhanced with the implementation of IFRSs. It is expected that with enhanced technology and design of internal systems this will occur and that IFRS approaches will assume greater importance such that in time significant differences between measurement for internal and external reporting will disappear.

While the G100 supports the management approach for identifying reportable segments we consider that external reporting should be IFRS compliant.

Q3. ***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?

The G100 believes that the current scope of IAS 14 should be retained. We do not consider that the case for extending the scope has been established.

Q4. ***Level of reconciliations***

The draft IFRS requires an entity to provide, for specified items, reconciliations of total reportable segment amounts recognised by the entity in accordance with IFRSs. 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.

The G100 supports the proposed approach to reconciliations at the group level. While this provides aggregate information about the nature and extent of the differences we believe that the costs of providing detailed segment based information, although potentially relevant to users, outweigh the benefits of the proposed approach.

Q5. ***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 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?

The reasons for providing geographical disclosures is not adequately explained. The G100 believes that there is little benefit in disclosing information about the geographical location of assets in the absence of equivalent disclosure relating to the segment results.

Q6 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 G100 supports the proposed consequential amendments to IAS 34.

Yours sincerely

Tom Honan
National President

c.c. Mr David Boymal, Chairman - AASB