



Australian Government

**Australian Accounting
Standards Board**

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Mr Kil-woo Lee
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Dear Kil-woo

Exposure Draft ED 8 *Operating Segments*

The Australian Accounting Standards Board (AASB) is pleased to submit its comments regarding the Exposure Draft ED 8 *Operating Segments*.

The AASB sought the views of Australian constituents and has considered their responses in formulating its comments. (These responses are published on the AASB's website: www.aasb.com.au.) In addition, the proposals in ED 8 were discussed at a joint meeting of the AASB and the New Zealand Financial Reporting Standards Board.

The AASB, while having concerns about some aspects of the proposals as explained below, supports the proposals as a means of achieving convergence of IASB/FASB requirements. However, the AASB is of the view that the IASB should give a higher priority to projects that seek to remove differences in relation to recognition and measurement in preference to differences in disclosure.

Question 1

The AASB supports the adoption of the management approach to identify operating segments for the reasons set out in the Basis for Conclusions. Discussions with analysts indicated strong support for the management approach as a means of seeing the entity as management does and achieving comparability in respect of the entity through time.

However, there remains a significant body of opinion (on the part of the AASB and constituents) that the measurement of segment information in general purpose financial statements should be on a basis consistent with IFRSs rather than permitting flexibility to use non-IFRS measures.

Question 2

As a general principle the AASB does not support divergence from SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*. However, as indicated in response to Question 5 the AASB supports the IASB approach to include intangible assets within non-current assets in preference to the approach in SFAS 131.

Question 3 – Scope

The AASB does not agree with the proposed restricted scope of the draft IFRS. The AASB believes that the IASB should set standards that need to be applied to achieve a high quality set of general purpose financial statements. Compliance with IFRSs should be a “brand” that denotes a full range of relevant information. It seems inappropriate that an entity should be able to claim IFRS compliance without providing segment disclosures, which is what a non-listed entity could do under the proposed scope. The scope of the draft IFRS should be extended to include all for-profit reporting entities that issue general purpose financial statements because there is also a wide group of users of financial statements of entities that are not listed. The users of the financial statements of these entities should not be disadvantaged as a result of the lack of information which is considered essential for users of the financial statements of listed entities. However, the AASB noted that whether the Standard applies to small and medium-sized entities is appropriately a matter to be dealt with as part of the SMEs project.

If the present scope is retained the AASB suggests that the term “fiduciary capacity” be defined and that further clarification be provided of the types of entities to which the “fiduciary capacity” applies. For example, it is not clear whether an entity with general insurance activities would be included under this requirement.

Question 4 – Level of reconciliations

The AASB supports the proposals for reconciliations to be provided at the group level. However, the equity analysts who we have consulted are firmly of the view that there should be reconciliations on a segment-by-segment basis so that the segmental impacts of changes to the accounting policies used by management for segment reporting are fully transparent over time.

Question 5 – Geographic information about assets

The AASB encourages the IASB to initiate a dialogue with the FASB to address the removal of this requirement from SFAS 131 because disclosure as proposed is meaningless, in the absence of information relating to the return achieved in respect of those assets. However, if the disclosure is retained the AASB believes that information about geographic segment profit and loss should be disclosed and that non-current assets should include intangible assets as proposed in ED 8 and as presently required by IAS 14 *Segment Reporting*.

Question 6 – Interim Reporting

The AASB supports the proposed consequential amendments to IAS 34 *Interim Financial Reporting*.

If you have any queries regarding any matters in this submission please contact Geoff Harris (gharris@aab.com.au) or myself.

Yours sincerely,

A handwritten signature in black ink that reads "David Boymal". The signature is written in a cursive style with a vertical line at the end.

David Boymal
Chairman – Australian Accounting Standards Board