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12 May 2006

Kil-woo Lee
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Dear Kil-woo

ED 8 Operating Segments

Deloitte Touche Tohmatsu is pleased to comment on the International Accounting Standards Board's (the Board's or IASB's) exposure draft *ED 8 Operating Segments* (referred to as ED 8 or the draft standard). Our responses to the specific questions raised in the exposure draft are set out in the Appendix to this letter.

Whilst we support much of the Board's strategy of convergence between IFRS and US GAAP, we do not believe that the tactic of converging the requirements on segmental reporting is necessary at this time, and share many of the concerns of the three dissenting Board members. We believe that convergence should be to the superior standard and, as discussed further below, do not believe that a sufficient case has been made that moving to the approach required by SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* would result in enhanced segmental disclosures.

In 1997 when IAS 14 and SFAS 131 were being developed, the IASC deliberately chose not to take a purely management approach to segmental reporting. We do not believe that convergence alone is justification for the proposed changes. Segmental reporting is solely a disclosure requirement, and so does not affect reconciliations between IFRS and US GAAP. The convergence project should focus on items reported in the primary financial statements. If the two Boards believe IAS 14 *Segment Reporting* needs improving, they should do so by considering the advantages and disadvantages of both it and SFAS 131, rather than converge to a single standard that has not proved to be superior, and we believe to be inferior.

We believe IAS 14 to be a better standard than SFAS 131 (and consequently ED 8), as it results in information that is generally more comparable between segments of the same entity, and also between segments of different entities within the same industry. Under the draft standard, there will be no requirement for revenue, expenses, assets or liabilities directly attributable to a segment to be reported within that segment. Furthermore, as a company could have different internal accounting policies for different segments, segment results within a single entity may not be comparable. As such, we believe that the move to ED 8 is not only an unnecessary change, but also a step backwards.

Finally, we object to the proposed effective date for the draft standard, as we believe it will be unhelpful to both users and preparers of financial statements. Many companies have invested significant time and effort in moving from their local GAAP to IFRS, and in particular in developing disclosures that comply with IAS 14. If they are only required to prepare segmental disclosures on an IAS 14 basis for two years before moving to an entirely different set of disclosures, much of this effort will have been wasted. Furthermore, segmental disclosures are designed to help users understand how the business operates. Having these disclosures prepared on one basis for just two years before moving to a very different basis will detract from the usefulness of the disclosures.

If you have any questions concerning our comments, we would be pleased to discuss them.

Sincerely,

Ken Wild
Global IFRS Leader

APPENDIX

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 Disclosure about Segments 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?

As discussed in our covering letter, we do not believe that convergence is necessary in this area at this time. Furthermore, we can see no compelling arguments explaining why the SFAS 131 approach is considered to be superior to IAS 14. The research cited by the Board compares the original FASB statement, SFAS 14, issued in 1976, with SFAS 131 and the Board has offered no substantive argument as to why this purely US-based research is relevant in an IFRS context. Consequently, we do not think that this research adequately supports the move from IAS 14 (as revised in 1997) to SFAS 131. Additionally, because IFRS is used in such a diverse range of jurisdictions, we would dispute the claim in BC 10 that corporate governance issues are likely to encourage management to use a single set of information for all purposes.

We believe that the existing approach in IAS 14 is, generally, more suitable as it defines amounts such as segment profit and segment assets, and requires financial information to be prepared consistently with that in the financial statements. We believe that these requirements result in higher quality disclosures and enhance comparability between similar entities.

Under the approach proposed in ED 8, similar entities will not necessarily give comparable segmental disclosures. For example, segment revenue will be affected by internal transfer pricing policies and may not include all amounts of revenue directly attributable to a segment. Also, segment revenue may not even be comparable between different segments within a single entity if different segments have different internal accounting policies.

Our strong preference is that IAS 14 is not amended at this time. If IAS 14 is amended, we would support using a SFAS 131 approach to identification of segments only, as discussed in our response to Question 2 below.

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 requirement you would add and indicate what you see as the relative costs and benefits of any such requirements

We do not believe that there is any compelling reason at this time to revisit the current segmental reporting requirements. If the Board deems it necessary to do so, we believe that convergence would be best served by taking the superior aspects of each of the existing standards rather than converging entirely to one of the standards. If this approach was taken, we would support the approach put forward by those board members expressing the alternative view given in ED 8; i.e. an approach that uses a management approach (as described in the ED) only to identify reportable segments. We would also support having just one set of reportable segments with some supplementary entity-wide disclosures, rather than a primary and secondary set as is currently required by IAS 14. However, thereafter we would support IAS 14's approach which requires certain items to be disclosed, and specifies how those items should be measured. We strongly disagree with measuring segment results and segment assets based on measures used for internal reporting purposes if they are not based on IFRS.

The benefits of broadly staying with an IAS 14 approach are that many companies have already adapted their internal reporting systems to enable them to comply with the current standard. Furthermore, the IAS 14 disclosures result in information that is generally more comparable between segments of the same entity, over time and between segments of different entities within the same industry. Whilst it could be argued that it will not be costly for companies to move to a SFAS 131 approach, we do not believe that the resulting disclosures will be more beneficial to users.

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 believe that the scope of the standard should not be amended until the Board has concluded on the definition of public accountability in its SME project. This will mean that the scope of the standard will only be amended once, rather than twice. Whilst we understand the Board's reasons for the proposed scope extension, we believe that there is no urgency in this area.

Question 4 – Level of reconciliations

The draft IFRS requires an entity to provide, for specified items, reconciliations of total reportable segment amounts to amounts recognized 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 no, indicate what you see as the relative costs and benefits of any other level of reconciliation.

As detailed elsewhere, we do not support the measurement basis proposed in the draft IFRS. If a SFAS 131 approach is adopted, we believe that the proposed reconciliations are necessary, and are at an appropriate level. However, we have concerns that such reconciliations are an inferior way of providing useful and helpful information.

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 believe that geographical information should be given for current assets as well as non-current assets, excluding specified items as per the draft standard.

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?

We do not support the general move to ED 8. However, if IAS 14 is replaced with ED 8, then we agree with the consequential amendments to IAS 34.