Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

By e-mail CommentLetters@iasb.org and by post

24 May 2006

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

Dear Mr. Lee,

Comments on IASB Exposure Draft: ED 8 *Operating Segments*

The Hong Kong Institute of Certified Public Accountants welcomes the opportunity to provide you with our comments on the captioned Exposure Draft. Our responses to the questions raised in your Exposure Draft are set out in the appendix for your consideration.

In general, we do not support the proposals to use the management approach to segment reporting. In particular, the proposed approach might lead to disclosure of segment amounts that are not measured in accordance with the accounting policies used in preparing the entity's financial statements. We are of the view that using the management approach would confuse users of financial statements, hinder the comparability between different entities' financial statements and create difficulties for auditors and regulators in checking the segment information disclosed.

We understand the IASB has an objective of reducing differences between IFRSs and US GAAP. However, as far as segment reporting is concerned, we consider that the approach used in the existing IAS 14 *Segment Reporting* is better than that used in SFAS 131 *Disclosures about Segments of an Enterprise and Related Information.* In addition, since IAS 14 is a comparatively new standard, we believe that many entities that apply IFRS would have changed their accounting system recently in order to be able to provide the information required under IAS 14. Accordingly, we do not consider that a compelling case for adopting SFAS 131 or otherwise changing IAS 14 has been made.

If you have any questions on our comments, please do not hesitate to contact me at patricia@hkicpa.org.hk.

Yours sincerely,

Patricia McBride
Director, Standard Setting

PM/EH/al

37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong
香港灣仔皇后大道東213號胡忠大廈37樓
Tel電話: (852) 2287 7228
Fax傳真: (852) 2865 6776
(852) 2865 6603
Website網址: www.hkicpa.org.hk
Email電郵: hkicpa@hkicpa.org.hk

APPENDIX

<u>Hong Kong Institute of CPAs</u>

Responses to the questions raised <u>in the IASB Exposure Draft ED 8 *Operating Segments*</u>

<u>General</u>

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?

In general, we do not support the proposals to use the management approach to segment reporting. In particular, the proposed approach might lead to disclosure of segment amounts that are not measured in accordance with the accounting policies used in preparing the entity's financial statements. We are of the view that using the management approach would confuse users of financial statements, hinder the comparability between different entities' financial statements and create difficulties for auditors and regulators in checking the segment information disclosed.

As far as segment reporting is concerned, we consider the approach used in the existing IAS 14 Segment Reporting *is better than that used in SFAS 131* Disclosures about Segments of an Enterprise and Related Information*. We therefore would propose continuing with the existing IAS 14.*

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.

Please see our response to question 1 above.

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 scope of the draft IFRS. However, we consider some further guidance on the definitions of "fiduciary capacity" and "a broad group of outsiders" would be needed in order to avoid any misunderstanding. For example, it is not clear whether an entity holding funds in trust for clients (such as a legal firm) would be within its scope. In addition, the scope of IAS 14 should only be extended to these entities if their financial statements are made available to the "broad group of outsiders" whose assets they hold.

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 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 exposure draft proposes that all material reconciling items between the aggregate of the segment information and the primary financial statements should be separately identified and described. If the IASB decides to proceed with the exposure draft, we consider the description should, as a minimum, require an explanation of the accounting policies used in preparing the segment information if they differ from those used in preparing the financial statements and of the nature and extent of each segment that is affected by the differences.

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?

If the IASB decides to proceed with the exposure draft, we agree with the requirement to disclose geographical information about non-current assets excluding specified items.

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?

If the IASB decides to proceed with the exposure draft, we agree with the consequential amendments made to IAS 34.