

18 May 2006

Sir David Tweedie
Chair, International Accounting Standards Board
30 Cannon Street
London EC4M 6Xh
United Kingdom

Re: Exposure Draft ED8, Operating Segments

Dear Sir David:

The CFA Centre for Financial Market Integrity (CFA Centre) of CFA Institute,¹ in consultation with its Corporate Disclosure Policy Council (CDPC)², appreciates the opportunity to comment on the International Accounting Standards Board's ("IASB") Exposure Draft – ED8, *Operating Segments*. The CFA Centre develops, promulgates, and maintains the highest ethical standards for the investment community including the CFA Institute *Code of Ethics* and *Standards of Professional Conduct*. The CFA Centre represents the views of investment professionals to standard setters, regulatory authorities, and legislative bodies worldwide to promote investor protection and efficient global capital markets.

General Comments

The Need for Specific Segment Disclosures

The primary financial statements provide information which is too aggregated to understand adequately the differences in legal, regulatory, and tax regimes, as well as the economic fundamentals, such as financial structures, line of business and risk attributes. All these items have implications for managers' decisions to select financial reporting policies and ultimately, how items in the financial statements are recognized and measured.

¹ The CFA Centre for Financial Market Integrity is part of CFA Institute[®]. With headquarters in Charlottesville, VA and regional offices in New York, Hong Kong and London, CFA Institute, formerly the Association for Investment Management and Research[®], is a global, non-profit professional association of more than 82,500 financial analysts, portfolio managers, and other investment professionals located in 126 countries of which more than 68,000 are holders of the Chartered Financial Analyst[®] (CFA[®]) designation. CFA Institute has 132 affiliated Member Societies and Chapters in 53 countries and territories.

² The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The Council comprises individuals, who are investment professionals with extensive expertise and experience in the global capital markets, as well as CFA Institute member volunteers. In this capacity, the Council provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures which meet the needs of investors.

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 2

As a company's operations become more complex and dynamic, the disclosure for its operating segments must evolve to provide more meaningful data along with explanations of the key financial items. Disclosures about a company's operating segments are essential in analyzing its multiple lines of products and services across geographic locations.

As noted in the 1993 Report – *Financial Reporting in the 1990's and Beyond* –

“Analysts need to know and understand how the various components of a multifaceted enterprise behave economically. One weak member of the group is analogous to a section of blight on a piece of fruit; it has the potential to spread rot over the entirety. Even in the absence of weakness, different segments will generate dissimilar streams of cash flows to which are attached disparate risks and which bring about unique values. Thus, without disaggregation, there is no sensible way to predict the overall amounts, timing, or risks of a complete enterprise's future cash flows. There is little dispute over the analytic usefulness of disaggregated financial data.” [Emphasis added.]

This need for predicting the future cash flows of a company is affirmed by recent survey results. (Please refer to **Survey Results** starting on page 6 for more details about the 2006 survey.) The results show that users of financial statements need specific segment information in order to analyze and evaluate a company's financial performance. In particular, 70–100% of respondents indicated that the following items should be provided in segment disclosures.

Information to be Disaggregated	% of Respondents (n=46)
Profit or loss (required by ED8)	100%
All unusual (nonrecurring) income or expense items *	96%
Revenue from external customers * **	87%
Assets (required by ED8)	86%
Operating cash flow **	86%
Liabilities **	82%
Revenue from transactions with other operating segments of the same entity * **	80%
Depreciation and amortization *	77%
Asset write-downs *	71%
Discontinued operations *	71%
Investing cash flow **	70%

* Item listed in paragraph 22 of ED8, or by reference to paragraph 86 in IAS 1, *Presentation of Financial Statements*.

** Item identified as a significant limitation on page 6.

These findings make clear that users need specific item disclosures which provide information regarding cash flows and that would have an effect on future cash flows, such as liabilities and off-

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 3

balance-sheet obligations. Thus, we recommend that additional segment information be required in the final Standard.

We believe that the current proposal **will not** result in sufficient segment disclosures. The proposed Standard requires only **profit or loss** and **total assets** along with the possibility that other information, as referenced in paragraph 22 of ED8, would be disclosed. At a minimum, companies should be required to disclose annually the following information about each operating segment regardless of whether the information is used regularly by the chief operating decision maker:

- Profit or loss
- Total revenue
- Revenue from external customers
- All unusual (nonrecurring) income or expense items
- Discontinued operations
- Operating cash flows
- Total assets
- Total liabilities
- Other key segment data provided to and used by the chief operating decision maker

Moreover, we believe that this information should be based on the same IFRS recognition and measurement criteria used in preparing the annual consolidated financial statements. For more elaboration of this view, please refer to our comments expressed in the *Agreement with Alternative View* and *Survey Results* sections of our general comments and response to the specific questions.

Although we prefer the same basis for both annual and interim reporting, we concede for now that IFRS-based segment disclosure for interim periods may not be practical given the trend towards accelerated reporting deadlines. Therefore, we support, though reluctantly, the full management approach for interim reporting because we believe that timely non-IFRS information about operating segments is better than having no information disclosed due to impracticalities.

Finally, we believe the disaggregated information (identified above) would also be very beneficial for companies, as well as investors. This level of information would aid in management's assessment of their companies' financial performance, and in turn, enable them to more effectively plan and develop strategies for running their business activities and making well-informed business decisions.

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 4

Convergence with SFAS 131 is Premature

We believe that the Board's decision to converge to Statement of Financial Accounting Standard (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information* is premature, and that convergence is occurring in the wrong direction.

In the *Basis for Conclusions* paragraph BC3, the Board indicates a review of academic findings on segment reporting, in particular, relating to the implementation of SFAS 131. Our review shows that many academic studies compare segment data provided pre-SFAS No. 131 (or under SFAS 14 et al³) versus the segment data available post-SFAS No. 131. Generally, these studies concluded that segment information appears to be improved over that which was previously required by SFAS 14.⁴ An observed, key improvement in segment data was an increase in disaggregated information or the number of reported segments. This increase in disaggregated information was attributed to the "management approach" for determining the level of disaggregation or reported segment.

However, we were unable to find any academic studies that compared data required under IAS 14 and SFAS 131.⁵ The lack of studies comparing IAS 14 and SFAS 131 is probably due to the fact that fewer companies in prior years, 1997-2004, were reporting under IFRS versus U.S. GAAP. With the increased use of IFRS around the world, there will be more IAS 14 segment data available to study and analyze. Therefore, we recommend that the Board consider delaying the convergence with SFAS 131 until further studies can be done to determine the quality and relevancy of segment disclosures reported under IAS 14 compared to SFAS 131.

Although not supported currently by academic studies, our preference for many of the principles in IAS 14 is based on our experiences of trying to analyze and understand segment disclosures over the past several decades. We need to understand the various business activities and transactions of a company and their potential returns and risks. In theory the management approach, as outlined in SFAS 131, should provide more information; however, to our disappointment this approach has not produced the level of segment information needed. Indeed, we doubt whether managers could effectively manage their business activities with such minimal information about their operating segments.

³ SFAS No. 14, *Financial Reporting for Segments of a Business Enterprise*; SFAS No. 18, *Financial Reporting of a Business Enterprise-Interim Financial Statements*; SFAS No. 24, *Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report*; and SFAS No. 30, *Disclosure of Information about Major Customers*.

⁴ Venkataram, R. (2001), in his unpublished dissertation "The Impact of SFAS No. 131 on Financial Analysts' Information Environment," found evidence that, on average, the accuracy of analysts' earnings forecasts improved after the introduction of SFAS No. 131.

⁵ Emmanuel, C. and Garrod, N. (1999), "On Segment Identification, Relevance and Comparability" The adoption in the USA and Canada of the management approach to identifying reportable segments places relevance as the overriding concern over comparability. They concluded that relevance and comparability are inescapably linked and that a focus on either one or the other degrades the overall usefulness of segmental disclosure. Among the studies that we found, this one comes closest to comparing the two approaches.

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 5

Agreement with Alternative Views

We agree with the alternative views expressed in paragraphs AV2 – AV6 within the *Basis for Conclusions* of ED8. In particular, we oppose using the full management approach as proposed in the draft Standard and therefore, agree with the alternative views. In particular, we believe that ED8 is flawed because it does not require a defined measure of segment profit or loss to be disclosed and does not require the measure of profit or loss reported to be consistent with the attribution of assets to reportable segments. Like the three Board members, we believe that the proposed IFRS should require amounts directly incurred by or directly attributable to a segment to be included in that segment's profit or loss, and measurement of a segment's profit or loss to be consistent with the attribution of assets to the segment.

Generally, we support a management approach for defining reportable segments and support requiring disclosure of specific segment information in both the annual and interim financial reports. We acknowledge that there is benefit to reviewing the information that managers use to manage and oversee its business operations. However, we believe that proper external reporting of segment information should not permit the use of non-GAAP measures because such measures could mislead users. Such misunderstanding is likely to occur if there is insufficient explanation about the differences between internal (non-GAAP) measures versus those reported in the consolidated financial statements.

Our understanding of the U.S. Securities and Exchange Commission's requirement for foreign private issuers to reconcile certain financial data to U.S. GAAP is to promote comparability between different reporting bases. Even after the proposed convergence, segment information based on non-GAAP measures as permitted by SFAS 131 or ED8 would still need to be reconciled to data in the consolidated financial statements. In other words, segment disclosures will not be comparable after SFAS 131 and IAS 14 are converged because different bases will be permitted. Therefore, we question the need to converge segment disclosure requirements at this time.

Significant Limitations in Current Segment Disclosures

Significant limitations in the data need to be address and therefore, we are disappointed that the IASB chose to converge with SFAS No. 131 without making further enhancements to the information provided. As noted in the CFA Centre's paper – *A Comprehensive Business Reporting Model: Financial Reporting for Investors*, there are four limitations identified:⁶

- Insufficient information is provided about segment liabilities, especially non-interest-bearing liabilities such as payables and accruals, as well as off-balance-sheet obligations.
- The computation of segment profit is affected by inter-segment pricing and overhead allocation.
- Differences in accounting policy choices across segments can also affect comparability.

⁶ Limitations identified by White, Sondhi and Fried in *The Analysis and Use of Financial Statements*, Third Edition, Wiley (New York), 2003, p. 475.

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 6

- In general, cash flow data are not provided for segments.

The combination of inadequate information about liabilities, coupled with no information about cash flows, makes it difficult for investors to assess capital allocation across segments. Investors need to know which segments are net cash flow generators, and which are net users of cash and require cash infusions from the corporate or other segments of the company. The need for improvement in segment disclosures is highlighted further in survey results discussed below.

Survey Results

Results from our surveys in 1999 and 2003⁷ showed that more than 70% of respondents had indicated that segment information is extremely to very important in their analysis of a company's financial statements. However, more than 60% viewed the information provided as being average to below average in quality. Also, the responses to the 2003 survey indicated that the quality of this information had declined between 1999 and 2003.

In March 2006, the Centre conducted a survey of a target group of members⁸, which focused solely on segment information. The aim of the survey was to determine which aspects of current segment information are, or are not, relevant and useful in evaluating and analyzing a company's financial information and what improvements are needed.

Importance and Quality of Current Segment Data

The 2006 survey showed similar results to the prior surveys regarding the importance and quality of segment disclosures -

- **86%** of respondents indicated that the information is *extremely - very important* to their analysis and evaluation of a company's financial performance (48% extremely important and 38% very important). There appears to be an increased level of importance placed on this information based on this survey's results versus prior surveys.
- **75%** of respondents indicated that the information is *average - poor quality* with regard to its usefulness in their analysis and evaluation of a company's financial performance (56% average - the information is useful some of the time; 13% below average - the information is often not useful; and 6% poor - the information is not useful). None of the respondents indicated that the information was excellent in that

⁷ CFA Institute (formerly Association for Investment Management and Research) conducted surveys of its membership to gauge the importance and quality of corporate disclosures and other means of corporate communication. The results of these surveys represent a global view of the importance and quality of the corporate disclosures at the time of the surveys. The survey reports are available on the CFA Institute's web site at <http://www.cfainstitute.org/pressroom/surveys.html>.

⁸ The CFA Centre invited members from the survey volunteer group (or 125 individuals), who indicated an interest in financial reporting and accounting matters, to complete the survey. The survey consisted of 18 questions. 45 respondents completed and 9 partially completed the survey, a response rate of 43.2%.

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 7

it met their needs all of the time; while 25% consider the information good in that the information is useful most of the time. Overall, the perception of the quality appears to have declined based on this survey's results versus prior surveys.

Financial Reporting Standards

The respondents (n=52) were asked to indicate on average, based on their coverage of companies, which set of financial reporting standards are used by companies: 52% use U.S. GAAP; 32% use IFRS; and the remaining 16% use other national GAAP, such as Canadian GAAP and Japanese GAAP.

Management Approach vs. Modified Management Approach

Respondents (n=46) were asked to identify which of the following segment presentation methods⁹ provides the most relevant and useful information.

Segment Presentation Method	Preference
Management Approach – Managers determine the segments based upon the way they manage their operations, that is, by business or operating units/segments rather than a prescribed format. For example, the segment information could be based on managers' internal reporting. In such an approach, any non-GAAP performance measures must be reconciled in total to the data provided in the primary consolidated financial statements – balance sheet, income statement, and cash flow statement.	20%
Modified Management Approach – Managers determine the segments based upon the way they manage their operations, that is, by business or operating units/segments rather than a prescribed format. However, the segment information and performance measures are based on GAAP or external reporting requirements which total (without the need for reconciliation) to the data provided in the primary consolidated financial statements – balance sheet, income statement, and cash flow statement.	48%
Both presentations provide similarly relevant and useful segment information.	28%
Neither presentation provides relevant or useful segment information	4%

Respondents that have a preference for the *modified management approach*, commented that this approach allows them to compare the segment information across reporting periods by company, as well as compare segment information between companies. This approach is considered less prone to

⁹ For purposes of the survey, a brief description was provided highlighting some of the key aspects of the methods to identify the possible differences in the data provided.

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 8

being manipulated and biased than the *management approach*, especially, if the non-GAAP items are not fully explained. They noted that sufficient quantitative and qualitative explanations need to be provided with the latter approach. Such explanations should note the measurement and recognition attributes used by managers and how they differ from those used to prepare the consolidated financial statements. Often these explanations are not provided or provide little to no useful information about the differences. As such, some respondents viewed the segment data provided under the management approach to be less reliable.

Specific Segment Data

Respondents (n=46) were asked, "Please indicate which of the following items of information should be disaggregated and shown for each operating segment. Select all that apply." The information items are listed below in descending order from the highest to the lowest percent in those responding.

Information to be Disaggregated	% of Respondents
Profit or loss (required by ED8)	100%
All unusual (nonrecurring) income or expense items *	96%
Revenue from external customers * **	87%
Assets (required by ED8)	86%
Operating cash flow **	86%
Liabilities **	82%
Revenue from transactions with other operating segments of the same entity * **	80%
Depreciation and amortization *	77%
Asset write-downs *	71%
Discontinued operations *	71%
Investing cash flow **	70%
Off balance sheet commitments and contingencies **	68%
Restructuring of activities *	67%
Effect of changes in accounting methods or estimates **	64%
Disposal of investments *	62%
Material non-cash items other than depreciation and amortization *	61%
Disposal of items of property, plant and equipment *	60%
Other reversal of provisions *	51%
Interest expense *	50%
The entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method *	50%
Interest revenue *	48%
Litigation settlements *	44%

International Accounting Standards Board
Re: *ED8, Operating Segments*
18 May 2006
Page 9

Information to be Disaggregated (continued)	% of Respondents
Income taxes expense or benefit *	43%
Other material items of income and/or expense	9%
Other	7%

* Item listed in paragraph 22 of ED8, or by reference to paragraph 86 in IAS 1, *Presentation of Financial Statements*.

** Item identified as a significant limitation.

Segment Data by Geographical Area

Respondents (n=45) were asked “Do you believe that segment information should be presented by geographical areas in addition to other presentations such as operating segment by nature?” **82%** said “Yes”, data by geographical areas should be provided in addition to data by operating segment.

Respondents elaborated on their answers, indicating that data by geographic area allows them to assess the effects of economic and political conditions, which tend to vary from region to region causing potential rewards and risks to vary. With this additional information, respondents noted that they were able to forecast more accurately the future earnings and growth of the company and compare companies’ operations within similar geographic locations. Some noted that it is critical to understand the financial or operational risks, such as “operating currency risk” of financial services firms.

Response to Specific Questions in ED 8

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?

No. As indicated in our general comments, in particular, *Convergence to SFAS 131 is Premature* and *Agreement with Alternative Views*, we believe strongly that convergence with SFAS 131 is not appropriate at this time.

Generally, we support a management approach to the identification of reportable segments. We believe that this approach can provide investors with valuable insights “through the eyes of management” into a company’s business activities and related transactions. However, we remain concerned about the potential for managers to obscure important information by selectively aggregating units with

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 10

fundamentally different economic or operating characteristics. We are also concerned that managers may tend to define segments based upon legal structure rather than their economic and operating characteristics.

The most useful segment information for investors is that based upon economically similar or related product/service lines or geographic factors. Therefore, we suggest that ED8 be revised to require managers to disaggregate segments that combine operations with disparate economic characteristics. In other words, we prefer the current requirement in IAS14 paragraphs 9-15.

Moreover, we continue to oppose any bright-line significance tests as outlined in **Quantitative thresholds** paragraphs 12-18 of ED8. Such a bright-line approach to determining disclosure thresholds is rules-based rather than a principles-based approach. Also, such bright lines give more weight than is appropriate to quantitative factors as compared to qualitative factors. For example, a smaller segment based on revenues or total assets may in fact present a greater risk exposure and potential for future loss given the type of business activity and/or its location, such as certain insurance and financial guaranty contracts or volatility of a geographic region due to political, economic or other dynamics. Further, the exposure to qualitative elements may vary from period to period in different degrees than what is reflected in the quantitative thresholds noted in ED8. Therefore, we recommend that the Board consider requiring disclosure of segment information for any segment that is significant to managers, for example, a segment that reports as such internally to the chief decision maker, including vertically integrated segments.

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.

Yes. We believe that a “modified” management approach should be required whereby the segment information provided is based on IFRS recognition and measurement requirements used to produce the consolidated financial statements. Please refer to *The Need for Specific Segment Disclosures* under our general comments for more elaboration.

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 11

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?

Yes. We concur with the Board’s decision to broaden the scope of the final Standard to also require entities that act as fiduciaries and hold assets for a broad group of outsiders to comply with the proposed standard. As stated earlier, we believe segment information is essential for understanding the financial performance of an entity.

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 not, indicate what you see as the relative costs and benefits of any other level of reconciliation.

We believe that segment disclosures prepared using recognition and measurement criteria according to IFRS are superior to non-IFRS measures. (Please refer to our response to **Questions 1 and 2.**) Therefore, under a “modified” management approach, as described in our 2006 survey, a reconciliation between segment data and amounts recognized by the entity in accordance with IFRSs would not be needed.

However, given the proposed convergence with SFAS 131 or a “full” management approach for segment reporting, we believe that the final Standard *should* require a reconciliation for individual reportable segments. The reason for the lower-level reconciliation is the lack of useful information under the “plug” approach to reconciling the segment amounts to total amounts presented in the financial statements. In other words, the proposed approach does not capture the differences between manager’s measurement and recognition attributes and IFRS for each segment reported, which may vary significantly depending on a segment’s activities and transactions. As a result, valuable information for each segment is lost and therefore, the segment information reported is less useful and may be misleading.

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 12

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?

Our response covers more broadly segment disclosures by geographic location than asked in the question. In our view, paragraph 32 of ED8 does not require geographical information because the provision of such information is dependent on both its availability and whether the costs are excessive to produce this information if it is otherwise not available. Unfortunately, it has been our experiences with tracking U.S. firms that apply SFAS 131, that geographical information for operating segments is often not disclosed. If disclosure is discretionary, then often the information is not provided.

In the case of geographical information, we believe *strongly* that this information should be required whether or not it is currently available. As indicated in the 2006 survey, **82%** of respondents believe that geographical information should be provided for segment disclosures. (For more elaboration, please refer to *Survey Results* on page 9.)

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?

Yes. We concur with the Board's decision to require more segment data in interim reports. As users of financial statements, we need timely updated information about a company's operating segments in order to make appropriate adjustments to its valuation.

As stated in our general comments, we prefer the same basis for both annual and interim reporting, but concede for now that interim period IFRS-based segment disclosure may not be practical given the trend towards accelerated reporting deadlines. Therefore, we support, though reluctantly, the full management approach for interim reporting because we believe that timely non-IFRS information about operating segments is better than having no information disclosed due to impracticalities. (For more elaboration of our views regarding this issue, please refer to *The Need for Specific Segment Disclosures* in our general comments.)

International Accounting Standards Board
Re: *ED8, Operating Segments*
18 May 2006
Page 13

Other Items Regarding ED8

Upon review of requirements for disclosing information about changes in reporting segments between reporting periods, we note that paragraphs 28 and 29 of ED8 do not require the same disclosures as paragraph 76 of IAS 14. Paragraph 76 states –

Changes in accounting policies adopted for segment reporting that have a material effect on segment information shall be disclosed, and prior period segment information presented for comparative purposes shall be restated unless it is impracticable to do so. Such disclosure shall include a description of the nature of the change, the reasons for the change, the fact that comparative information has been restated or that is impracticable to do so, and the financial effect of the change, if it is reasonably determinable. If an entity changes the identification of its segments and it does not restate prior period segment information on the new basis because it is impracticable to do so, then for the purpose of comparison the entity shall report segment data for both old and the new basis of segmentation in the year in which it changes the identification. [Emphasis added to highlight omissions from ED8.]

We strongly recommend that the Board consider requiring that companies explain in more detail:

- (1) The nature and reasons for changing the structure of segment reporting, i.e., the number and/or grouping of business activities into reported segments; and
- (2) Any changes in accounting policies adopted for segment reporting that have a material effect on segment information. [This item may be covered to some extent under paragraph 26(d) of ED8. However, it is not clear if measurement methods and accounting policies are synonymous with each other for purposes of segment reporting.]

These explanations are essential to understanding the effect of these changes on segments and the overall performance of a company, especially if the segment information is not restated due to impracticalities, i.e., information is not available and the costs are too excessive.

Closing Remarks

Overall, we are disappointed in the segment information currently available under SFAS 131 and believe it to be inferior to the information required by IAS 14. We acknowledge that some of the deficiencies are due to noncompliance with SFAS 131, which need to be addressed by external auditors and securities regulators. Nonetheless, we believe that having comprehensive and relevant segment information is too critical to a user's analysis and evaluation of a company's financial performance and assessment its future prospects to merely accept the status quo. In conclusion, we

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 14

believe strongly that it is important that standard setters aim to improve segment disclosure requirements rather than simply converging one existing standard to another.

The CFA Centre for Financial Market Integrity, together with its Corporate Disclosure Policy Council, appreciates the opportunity to provide comment to the IASB on its ED 8, Operating Segments. If you or your staff have questions or seek further elaboration of our views, please contact Georgene B. Palacky, by phone at +1.434.951.5326 or by e-mail at georgene.palacky@cfainstitute.org.

Sincerely,

/s/ Rebecca T. McEnally

Rebecca T. McEnally, CFA, PhD
Director, Capital Market Policy Group, CFA Centre

/s/ Lee Kha Loon

Lee Kha Loon, CFA
Head, Asia Pacific Operations
CFA Centre

/s/ John F. Barrass

John F. Barrass
Head, EMEA Operations
CFA Centre

Our comments have benefited from, and are supported by, the substantive input of the Corporate Disclosure Policy Council. The members of the Council are:

Patricia A. McConnell, CPA – Chair

Bear, Stearns & Co., Inc.

Jane B. Adams, CPA

Maverick Capital Ltd.

Anthony Good, ASIP

Equity Research Consultant

David E. Runkle, CFA

Value Creation Advisors, LLC

Ted Stevens, CFA

Blackrock Inc.

Barry L. Ehrlich, CFA

MCT Asset Management

Robert F. Morgan, CFA

Forbes Morgan Consulting

Toshihiko Saito, CFA

Capital International Research

Gerald I. White, CFA

Grace & White, Inc.

International Accounting Standards Board

Re: *ED8, Operating Segments*

18 May 2006

Page 15

Cc: Corporate Disclosure Policy Council
Ray DeAngelo, Managing Director, Members and Society Division, CFA Institute
Kurt N. Schacht, JD, CFA, Executive Director, CFA Centre