LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

CL 181

19 May 2006

The Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir David,

Exposure Draft ED 8: Operating Segments

The Malaysian Accounting Standards Board (MASB) appreciates the opportunity to offer its views on ED 8 Operating Segments.

We commend the efforts of IASB on its convergence projects with FASB. Generally, deliverables from any convergence project should result in the improvement of the existing IFRSs.

Having reviewed the ED, we believe that ED 8 Operating Segments provides little significant improvement to the existing IAS 14 Segment Reporting. Instead, there is too much latitude allowed in ED 8 which could hamper the: (a) usefulness of segment information to users of financial statements; and (b) comparability of the segment information.

We believe that a more robust external reporting of segment information should not permit the use of non-GAAP measures. If the IASB believes that non-GAAP to be allowed in reporting operating segment information as a result of the management approach adopted by the Standard, such segment information should be placed outside, and not as an integral parts of the financial statements. The operating segment information could be placed together with other reports outside the ambit of financial statements, such as reports on management commentary, environmental reporting, etc.

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It would be misleading to have a set of financial information that is placed as an integral part of financial statements and yet being prepared using non-GAAP measures. In addition, it would be difficult from the audit standpoint to express an opinion on the financial statements, which is prepared based on GAAP as well as non-GAAP within the same financial statements. Presenting financial information prepared on non-GAAP basis as part of audited financial statements may give a false sense of assurance to the readers.

We are also concerned that ED 8 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. By not defining the segment profit or loss, ED 8 allows the reporting of any measure of segment profit or loss as long as that measure is reviewed by the chief operating decision maker.

On the specific questions raised in ED 8, we are pleased to submit our responses in an Appendix to this letter.

Should you require further information, please contact Dr. Nordin Mohd Zain, the Executive Director of MASB, via e-mail at nordin@masb.org.my.

Yours sincerely,

Dato' Zainal Abidin Putih
Chairman

IASB ED 8
Operating Segments

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?

Response:

We disagree with the approach adopted in ED 8. Allowing a freehand for management to identify and measure the operating segment on the basis of internal reports reviewed by the entity's chief operating decision maker would leave too much latitude in the Standard that could hamper the usefulness and comparability of operating segment information. Non defined terms, such as segment revenue, segment expense, and segment profit or loss, does not help either.

We are not convinced by the IASB's basis for conclusions that the ability of entities to prepare segment information on a sufficiently timely basis for inclusion in the interim reports outweighed any disadvantages arising from the potential for segments to be reported in accordance with non-IFRS accounting policies. On a contrary, it is misleading to present operating segment information prepared on non-IFRS to be used alongside with other financial information prepared on the basis of IFRS.

We suggest that the existing provisions in IAS 14 Segment Reporting be maintained as the proposals in ED 8 has not bring any improvement to 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.

<u>Response:</u>

See 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?

<u>Response:</u>

We have no objection on the scope of the Operating Segment standard to be extended to include entities that hold assets in a fiduciary capacity for a broad group of outsiders.

However, the Standard should provide clearly explained the extended scope rather than merely providing examples of such entities.

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.

Response:

Please see response to Question 1 above and on that basis, we believe the reconciliation of total amounts is meaningless and does not provide useful information to users of financial statements.

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?

Response:

We have no objection to the proposal.

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?

Response:

See response to Question 4 above.