International Accounting Standards Board®

Press Release

FOR IMMEDIATE RELEASE 19 January 2006

IASB publishes convergence proposals on segment reporting

The International Accounting Standards Board (IASB) today published for public comment proposals to improve segment reporting. The proposals are set out in an Exposure Draft of an International Financial Reporting Standard (IFRS) ED 8 *Operating Segments*.

The proposals mark another step towards convergence of international and national standards by continuing the IASB's work in its joint-short-term convergence project with the US Financial Accounting Standards Board (FASB) to reduce differences between the IASB's International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP).

ED 8 results from the IASB's comparison of International Accounting Standard (IAS) 14 *Segment Reporting* with the US standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*. The proposed IFRS would replace IAS 14 and align segment reporting with the requirements of SFAS 131.

ED 8 would require an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the income statement and balance sheet. The proposals would therefore require explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet.

The IASB believes that adopting the management approach would improve financial reporting. First, it allows users of financial statements to review the operations through the eyes of management. Secondly, because the information is already used internally by management, there are few costs for preparers and the information is available on a timely

30 Cannon Street, London EC4M 6XH, United Kingdom
Telephone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411 Email: iasb@iasb.org Web: www.iasb.org

basis. This means that interim reporting of segment information can be extended beyond the current requirements.

Introducing the Exposure Draft, Sir David Tweedie, IASB Chairman, said:

> The proposals in ED 8 continue our work to eliminate major differences between IFRSs and US GAAP and to improve financial reporting. In these proposals we have adopted the management approach to segment reporting set out in SFAS 131. We believe that the proposals offer benefits to users of financial statements by enabling them to see an entity through the eyes of management and to entities by enabling them to provide timely segment information at little extra cost.

The IASB invites comments on the Exposure Draft by 19 May 2006.

The primary means of publishing proposed IFRSs is by electronic format through the IASB's subscriber Website. Subscribers are able to access the Exposure Draft published today through 'online services'. Those wishing to subscribe should contact:

> IASCF Publications Department,
> 30 Cannon Street, London EC4M 6XH, United Kingdom.
> Tel: +44 (0)20 7332 2730, Fax +44 (0)20 7332 2749
> Email: publications@iasb.org Web: www.iasb.org

Printed copies of ED 8 *Operating Segments* (ISBN 1-905590-00-8) (three-part set) will be available shortly, at £10 including postage, from IASCF Publications Department.

From 30 January the text of the Exposure Draft will be available freely from the IASB's Website.

END

Press enquiries:

Sir David Tweedie, Chairman, IASB,
telephone: +44 (0)20 7246 6410, email: dtweedie@iasb.org

Elizabeth Hickey, Director of Technical Activities, IASB,
telephone: +44 (0)20 7246 6458, email: ehickey@iasb.org

Anne McGeachin, Senior Project Manager, IASB
telephone: +44(0)20 7246 6462, email: amcgeachin@iasb.org

Kil-woo Lee, Visiting Fellow, IASB
telephone: +44(0)20 7246 6464, email: klee@iasb.org

Notes to Editors

About the Exposure Draft

Reasons for publishing ED 8 *Operating Segments*

1. Achieving convergence of accounting standards around the world is one of the prime objectives of the International Accounting Standards Board. In pursuit of that objective, the Board and the Financial Accounting Standards Board (FASB) in the United States have undertaken a joint short-term project with the objective of reducing differences between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (US GAAP) that are capable of resolution in a relatively short time and can be addressed outside major projects. One aspect of that project involves the two boards considering each other's recent standards with a view to adopting high quality financial reporting solutions. ED 8 results from the IASB's comparison of IAS 14 *Segment Reporting* with FASB Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131). IAS 14 was issued in substantially its present form by the IASB's predecessor body, the International Accounting Standards Committee, in 1997.

Main features of ED 8

2. The Exposure Draft would require an entity to report financial and descriptive information about its reportable segments. Reportable segments would be operating segments or aggregations of operating segments that meet specified criteria. Operating segments would be components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information would be required to be reported on the basis that it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

3. The Exposure Draft would:

   - extend the scope of segment reporting to include entities that hold assets in a fiduciary capacity for a broad group of outsiders as well as 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.
   - require identification of operating segments based on internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. This is because the requirements of the Exposure Draft are based on the information about the components of the entity that management uses to make decisions about operating matters.
   - include a component of an entity that sells primarily or exclusively to other operating segments of the entity in the definition of an operating segment if the entity is managed that way.
   - require the amount of each operating segment item reported to be the measure reported to the chief operating decision maker for the purposes of allocating

resources to the segment and assessing its performance.

- require reconciliations of total reportable segment revenues, total profit or loss, total assets, and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.
- require an explanation of how segment profit or loss and segment assets are measured for each reportable segment.
- require an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions.
- require an entity to give descriptive information about the way that the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.

Proposed effective date

4. The proposed IFRS would apply to the annual financial statements for periods beginning on or after 1 January 2007, with earlier application encouraged.

About the IASB

The international Accounting Standards Board (IASB), based in London, began operations in 2001. Contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations fund the operations of the IASB.

The 14 Board members (12 of whom are full-time) are drawn from nine countries and have wide international experience and a variety of functional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB cooperates with national accounting standard-setters to achieve in accounting standards around the world. Upon its inception the IASB adopted the body of International Accounting Standards (IASs) issued by its predecessor, the International Accounting Standards Committee (IASC).

A Deloitte & Touche study indicates that 94 countries either require or permit the use of IFRSs for publicly traded companies beginning in 2005. Some other jurisdictions, including Australia, New Zealand, the Philippines and Singapore, base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. In October 2004, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions about a joint project to minimise differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards. In January 2005 the two boards announced their agreement to launch a joint project to reduce differences between IFRSs and Japanese accounting standards, and in March the boards met to decide on the initial programme of work for the project. The Canadian Accounting

Standards Board has proposed that Canadian standards for public companies should converge with IFRSs over a five-year transitional period. In November 2005, representatives of the China Accounting Standards Committee of the People's Republic of China and the IASB met in Beijing to discuss the convergence of Chinese accounting standards with IFRSs.