

Accounting Standards Board of Japan (ASBJ)

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

Comments on ED 8 *Operating Segments*

The Accounting Standards Board of Japan (ASBJ) is pleased to provide comments on ED 8 *Operating Segments*. The comments expressed in this letter are those of the International Issues Standing Committee of the ASBJ.

We basically agree with the adoption of the management approach applied in FAS131 *Disclosures about Segments of an Enterprise and Related Information* by the Financial Accounting Standards Boards (FASB) in ED8.

We would like to ask the IASB to proceed with further investigation for achieving better segment information disclosures by taking our comments into consideration.

The following are our comments on each question.

1. Adoption of the management approach in FASB statements (Question 1)

We basically agree with the adoption of the management approach because it has the merits of making the users of financial statements look at the company management through the eyes of a chief operating decision-maker, reducing the preparers' burden by using internal reporting for external disclosure and providing for easier consistency with non-financial information disclosures.

2. The difference from FAS131 (Question 2)

Paragraph 22 of ED 8 states that "an entity shall report a measure of profit or loss and total of assets of each reportable segment". On the other hand, paragraph 24 states that " the amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance" and "only those assets that are included in the measure of the segment's assets that is

used by the chief operating decision maker shall be reported for that segment". This can be interpreted as meaning that there may be cases in which it is not necessary for asset information to be disclosed.

We think that the relationship between paragraph 22 and 24 should be clarified in terms of whether or not it is necessary for a corporation to disclose information about assets in each segment. In this context, we are concerned that information on assets will no longer be disclosed at all.

3. Scope of the standard (Question 3)

It is indicated that, in paragraph 2, the scope of the entities which shall apply ED 8 has been extended compared with that under current IAS 14. If this is to be the case, we recommend that the reason for the extension should be provided.

4. Level of reconciliations (Question 4)

We agree with the proposal which does not require reconciliations for each reportable segment.

Since the purpose for the adoption of the management approach is to make the users of financial statements look at the company management through the eyes of the chief operating decision maker, we believe that the figures based on GAAP have no use if the chief operating decision maker does not use them. In addition, the preparation of the numbers based on GAAP for each segment hampers one of the purposes for the adoption of the management approach which aims to reduce the burden on preparers of using internal reporting for external disclosure. Therefore, we believe that reconciliations for each reportable segment should not be required.

5. Geographical information about assets (Question 5)

In terms of geographical information about assets, FAS131 requires the disclosure of long-lived tangible assets and IFRS ED 8 recommends the disclosure of non-current assets which are long-lived assets including intangible assets. Current Japanese GAAP disclosures are based on total assets including current assets.

We believe it is preferable to make the users of financial statements understand the whole picture of investments by showing to what degree the funds are invested in each region. This is because we believe that risk assets are not limited to long life assets, but also exist in items under current assets. Therefore, we recommend that the IASB consider, as Japanese GAAP currently requires, the disclosure of total assets as an alternative for the risk assets disclosure. In this context, we are concerned that, for example, the real estate held for sale at a real estate company, disbursements for uncompleted construction by plant construction companies, etc. will be excluded from the geographical information about assets.

We hope that our comments contribute to the final decision of the IASB.

Best Regards,

Ikuo Nishikawa

Chairman, International Issues Standing Committee

Vice-Chairman, Accounting Standards Board of Japan